R FINANCE CORPORATION

HEARINGS

BEFORE THE

MITTEE ON BANKING AND CURRENCY
F THE HOUSE OF REPRESENTATIVES

ON

BILL S. 1915

END THE WAR FINANCE CORPORATION ACT, APPROVED RIL 5, 1918, AS AMENDED, TO PROVIDE RELIEF FOR PRODUCERS OF AND DEALERS IN AGRICULTURAL PRODUCTS, AND FOR OTHER PURPOSES

TUESDAY, AUGUST 9, 1921

STATEMENTS OF

HON. W. P. G. HARDING
Governor Federal Reserve Board

MR. EUGENE MEYER, Jr.
Managing Director War Finance Corporation

WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

COMMITTEE ON BANKING AND CURRENCY.

House of Representatives.

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

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WAR FINANCE CORPORATION.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, August 9, 1921.

The committee met at 10.30 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The committee thereupon proceeded to the consideration of S. 1915, which is here printed in full, as follows:

Be it enacted, etc., That when used in this act the term "person" includes partnerships, corporations, and associations, as well as individuals.

SEC. 2. That section 1 of the War Finance Corporation act, approved April 5, 1918, as amended, is amended to read as follows:

"That the Secretary of the Treasury, the Secretary of Agriculture, and four additional persons (who shall be the directors first appointed as hereinafter provided) are hereby created a body corporate and politic in deed and in law by the name, style, and title of the War Finance Corporation (herein called the corporation), and shall have succession for a period of 10 years: *Provided*, That except as otherwise provided by this amendatory act the corporation shall not exercise any of the powers conferred by this act except such as are incidental to the liquidation of its assets and the winding up of its affairs, after six months after the termination of the war, the date of such termination to be fixed by proclamation of the President of the United States."

SEC. 3. The War Finance Corporation act, approved April 5, 1918, as amended, is amended by adding after section 21 thereof the following new sections:

"SEC. 22. Whenever the board of directors of the corporation shall be of the opinion that conditions arising out of the war, or out of the disruption of foreign trade created by the war, have resulted in or may result in an abnormal surplus accumulation of any staple agricultural product of the United States and that the ordinary banking facilities are inadequate to enable producers of or dealers in such products to carry them until they can be exported, or sold for export in an orderly manner, the corporation shall thereupon be empowered to make advances, for periods not exceeding one year from the respective dates of such advances, upon such terms, not inconsistent with this act, as it may determine:

"(*a*) To any person engaged in the United States in dealing in, or marketing any such products, or to any association composed of persons engaged in producing such products, for the purpose of assisting such person or association to carry such products until they can be exported or sold for export in an orderly manner. Any such advance shall bear interest at a rate not exceeding 1½ per cent in excess of the rate of discount for 90-day commercial paper prevailing at the Federal reserve bank of the district in which the borrower is located at the time when such advance is made;

"(b) To any person without the United States purchasing such products, but in no case shall any of the money so advanced be expended without the United States. Every such advance shall be secured by adequate security of such character as shall be prescribed by the board of directors of the corporation. The rate of interest charged on any such advance shall be determined by the board of directors. The corporation shall retain power to recall an advance or require additional security at any time.

"(c) To any bank, banker, or trust company in the United States which makes or has made an advance or advances to any such person as is described in paragraph (a) of this section for the purpose therein set forth, or which makes or has made an advance or advances to any producer for the purpose set forth in paragraph (a). The aggregate of advances made to any bank, banker, or trust company shall not exceed the amount remaining unpaid of the advances made by such bank, banker, or trust company for purposes herein described. Such advances shall bear interest at the rates fixed by the corporation.

"SEC. 23. Notwithstanding the limitation of section 1, the advances provided for by section 21 and section 22 of this act may be made until July 1, 1922. The corporation may from time to time extend the time of payment of any such advance or advances through renewals, substitution of new obligations, or otherwise, but the time for the payment of any advance made under authority of section 21 shall not be extended beyond five years from the date upon which such advance was originally made, and the time for the payment of any advance made under authority of section 22 shall not be extended beyond two years from the date upon which such advance was originally made.

"All advances made under section 21 or under section 22 of this act shall be made against the promissory note or notes or other instrument or instruments in writing imposing on the borrower a primary and unconditional obligation to repay the advance at maturity, with interest as stipulated therein, with full and adequate security in each instance by indorsement, guaranty, pledge, or otherwise. The corporation shall retain the power to require additional security at any time.

"SEC. 24. Whenever in the opinion of the board of directors of the corporation the public interest may require it, the corporation shall be authorized and empowered to make advances upon such terms not inconsistent with this act as it may determine to any bank, banker, or trust company in the United States which may have made advances for agricultural purposes, including the breeding, raising, fattening, and marketing of live stock. Such advance or advances may be made upon the promissory note or notes, or other instrument or instruments, in such form as to impose on the borrowing bank, banker, or trust company a primary and unconditional obligation to repay the advance at maturity with interest as stipulated therein, and shall be fully and adequately secured in each instance by indorsement, guaranty, pledge, or otherwise. Such advances may be made for a period not exceeding one year, and the corporation may from time to time extend the time of payment of any such advance through renewals, substitution of new obligations, or otherwise, but the time for the payment of any such advance shall not be extended beyond two years from the date upon which such advance was originally made. The aggregate of any advances made to any bank, banker, or trust company shall not exceed the amount remaining unpaid of the advances made by such bank, banker, or trust company for purposes herein described.

"The corporation may, in exceptional cases, upon such terms not inconsistent with this act as it may determine, purchase from domestic banks, bankers, or trust companies, notes, drafts, bills of exchange, or other instruments of indebtedness secured by chattel mortgages, warehouse receipts, bills of lading, or other instruments in writing conveying or securing marketable title to staple agricultural products, including live stock. The corporation may from time to time, upon like security, extend the time of payment of any note, draft, bill of exchange, or other instrument acquired under this section, but the time for the payment of any such note, draft, bill of exchange, or other instrument shall not be extended beyond two years from the date upon which such note, draft, bill of exchange, or other instrument was acquired by the corporation. The corporation is further authorized, upon such terms as it may prescribe, to purchase, sell, or otherwise deal in debentures, promissory notes, or other obligations, adequately secured, issued by banking corporations organized under section 25 (a) of the Federal reserve act: *Provided*, That no purchase of debentures, promissory notes, or other obligations of the said banking corporations shall be made nor any loan or advance be made to said banking corporations except for the purpose of assisting the said banking corporations in financing the exportation of agricultural and manufactured products from the United States to foreign countries. No such promissory notes, debentures, or other obligations shall be purchased which have a maturity at the time of such purchase of more than five years.

"Advances or purchases may be made under this section at any time prior to July 1, 1922.

"SEC. 25. (a) The corporation shall have power and is authorized and empowered, upon request therefore by the Federal Farm Loan Board, created by the Federal farm loan act approved July 17, 1916, as amended, to make advances to Federal land banks, at a rate of interest not exceeding the rate of interest charged by Federal land banks for loans under the provisions of such Federal farm loan act, as amended, and to accept as security therefor farm loan bonds issued by such Federal land banks maturing within five years of the date of issue, or to purchase such bonds from the capital, earnings, reserve fund, or other assets of such corporation to the amount of $100,000,000 during the calendar year ending December 31, 1921, and $100,000,000 during the cal[illegible] [illegible]nding December 31, 1922.

"(b) Eve[illegible] bank shall have power, subject to the provisions, limitations, and [illegible] the Federal farm loan act approved July 17, 1916, as

amended, and of this section, to receive and pay interest upon such advances, to issue farm loan bonds as security therefor, to issue and sell farm loan bonds, to buy the same for its own account at any time, and to retire any or all of such bonds at or before maturity.

"SEC. 26. The aggregate amount of all advances made under sections 21, 22, and 24, and all notes, drafts, bills of exchange, or other securities purchased under section 24 remaining unpaid, shall not at any one time exceed $1,000,000,000.

"SEC. 27. The corporation is empowered and authorized to investigate upon its own initiative or in cooperation with other governmental agencies foreign market conditions and to advise where disposition may be advantageously made of such agricultural products.

"SEC. 28. Whenever in this act the words 'bank, banker, or trust company' are used, they shall be deemed to include any reputable and responsible financing institution with resources adequate to the undertaking contemplated.

"SEC. 29. In order to enable the corporation to carry out the purposes of this act, the Comptroller of the Currency is hereby authorized to furnish to the corporation for its confidential use such reports, records, or other information as he may have available relating to financial condition of national banks to which the corporation has made or contemplates making advances, and to make, through his examiners, for the confidential use of the corporation, examinations of banks, bankers, or trust companies, other than national banks, to which the corporation has made or contemplates making advances: *Provided*, That no such examination shall be made without the consent of such bank, banker, or trust company.

"SEC. 30. No person, bank, banker, or trust company receiving money under the provisions of this act shall loan such money at a rate of interest greater than 2 per cent per annum in excess of the rate of interest charged or received by the corporation upon such money."

SEC. 4. Section 21, of the War Finance Corporation act, is hereby amended by striking out paragraphs (b) and (c) thereof, and by striking out at the beginning of the first paragraph the letter (a).

SEC. 5. The first paragraph of section 12 of the War Finance Corporation act is hereby amended and reenacted to read as follows:

"SEC. 12. That the corporation shall be empowered and authorized to issue and have outstanding at any one time its notes or bonds in an amount aggregating not more than four times its paid-in capital, such notes or bonds to mature not less than six months nor more than five years from the respective dates of issue, and may be redeemable before maturity at the option of the corporation, as may be stipulated in such notes or bonds, and to bear such rate or rates of interest as may be determined by the board of directors, but such rate or rates of interest shall be subject to the approval of the Secretary of the Treasury. Such notes or bonds shall have a first and paramount floating charge on all the assets of the corporation, and the corporation shall not at any time mortgage or pledge any of its assets. Such notes or bonds may be issued at not less than par in payment of any advances authorized by this title, or may be offered for sale publicly or to any individual, firm, corporation, or association, at such price or prices as the board of directors, with the approval of the Secretary of the Treasury, may determine.

"The power of the corporation to issue notes or bonds may be exercised at any time prior to January 1, 1927, but no notes or bonds shall mature later than July 1, 1927."

SEC. 6. Paragraph 1 of section 13 of the War Finance Corporation act is hereby amended and reenacted to read as follows:

"That the Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal reserve act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such notes or bonds of the corporation and to rediscount notes or other negotiable instruments secured by such notes or bonds and indorsed by a member bank. Discounts or rediscounts under this section shall be at an interest rate equal to the prevailing rate for eligible commercial paper or corresponding maturities."

The CHAIRMAN. Gov. Harding is here this morning. The suggestion was made that we have Mr. Eugene Meyer, jr., manager and director of the War Finance Corporation, here this morning. I called Mr. Meyer, and he told me he has to go before the Senate Committee on Interstate and Foreign Commerce this morning, but that he can be here this afternoon at 2 o'clock. So I have asked the governor to be with us this morning, and Mr. Meyer will be here this afternoon.

So, Gov. Harding, if you will take a seat at the table here we will proceed.

The committee has before it for consideration S. 1915, a bill to amend the War Finance Corporation act, approved April 5, 1918, to provide for relief for producers of and dealers in agricultural products through loans by the War Finance Corporation.

We have particularly in mind, and I want to inquire of you as to the last section of this bill, which is paragraph 6. (Reading:)

"Paragraph 1 of section 13 of the War Finance Corporation act is hereby amended and reenacted to read as follows:

"That the Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal reserve act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such notes or bonds of the corporation and to rediscount notes or other negotiable instruments secured by such notes or bonds and indorsed by a member bank. Discounts or rediscounts under this section shall be at an interest rate equal to the prevailing rate for eligible commercial paper or corresponding maturities."

STATEMENT OF HON. WILLIAM P. G. HARDING, GOVERNOR FEDERAL RESERVE BOARD.

Gov. Harding. That word "or" should be "of," and it should read "eligible commercial paper of corresponding material."

The Chairman. Yes. This provides for very extensive relief to the banks and those farmers who form themselves into associations engaged in production et al, and in as much as they have a right to create debentures or notes subject to discount in the Federal reserve system, the committee would like to know from you whether or not that is agreeable to the Federal Reserve Board, and what effect that would have on the lines of credit extended to member banks, if they finance themselves to any extent through the War Finance Corporation and thus relieve themselves of frozen credits.

Gov. Harding. The Federal Reserve Board, Mr. Chairman, has considered that particular paragraph of this bill, and that is the only portion that it has considered formally. The board entertains no objection to the provision made in this paragraph. It amends the original section of the War Finance Corporation act, which was adopted in 1918, however. That section provided that paper secured by War Finance Corporation bonds, where it did not go beyond the time limit provided in section 13, was eligible and could be rediscounted at rates, I think, 1 per cent above the official discount rate of the Federal reserve bank.

That provision was put in by those who drafted the bill to meet the objections, I believe, of Mr. Glass, very largely, who was at that time chairman of this committee. I know the War Finance Corporation bill was a Treasury bill and never was a Federal Reserve Board bill.

Mr. Wingo. Particularly the 1 per cent feature.

Gov. Harding. The whole War Finance Corporation bill was a Treasury bill. Mr. Glass insisted on the 1 per cent differential, the idea being that we were at war and that no one knew just how large this issue was going to grow in volume, and that there had better be some protection in the way of differential.

Under the present circumstances the board sees no occasion to continue that differential, because the effect, as the board sees it, of lendings by the War Finance Corporation to the banks will be either to reduce the amount of paper which the banks have now under discount with the Federal reserve bank or else to prevent any further increase in their borrowings from the Federal reserve bank, because they have another channel—they can borrow from the War Finance Corporation.

Assuming that the War Finance Corporation will exercise its usual care in making loans, the board does not see that this will result in any further expansion of credit than we might expect in any event.

The Chairman. Of course, through this source it might make eligible for rediscount a class of paper that would not otherwise be eligible, might it not?

Gov. Harding. Yes. But, then, there is a great deal of ineligible paper always discounted by banks, and if they have occasion to go to the Federal reserve bank, they will discount other paper that is eligible.

Mr. Wingo. I presume that under practical working operations it is impossible to prevent, except to a limited extent, banks indirectly doing what the law would permit directly—that is, bringing up paper that is eligible and acceptable and obtaining rediscounts on that, when their real purpose is to procure funds on paper that otherwise would not be eligible—you find it difficult to restrain that, do you not?

Gov. Harding. Yes.

Mr. Wingo. And the evil, you think, of this would not be any greater than the present existing evil along that line?

Gov. Harding. We discussed this very fully at the board meeting, and no member of the board interposed any objection. The concensus of opinion was that there was no occasion to con[illegible]erential.

Mr. WINGO. I really was getting off of the differential. It does occur to me, right at the first blush, if it is proper paper to be handled and is proper paper to be rediscounted by the Federal reserve banks, that there is no reason why it should be loaded with a differential over any other class of paper that enters into the general necessary commercial activities of the country.

Gov. HARDING. I think so, too.

Mr. WINGO. As I read this, it provides that the only way under the war finance act—that is, the present provision that we are considering here—that the Federal reserve banks will be called on—will be, say, a member bank comes up and offers its direct obligation and then attaches as collateral either the note or a bond issued by the War Finance Corporation. Is that a correct interpretation of that?

Gov. HARDING. How is the member bank going to get the note or bond of the War Finance Corporation?

Mr. WINGO. I do not know. I notice it says "The Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal reserve act and to regulations of the Federal Reserve Board." They should be authorized to do what? "To discount the direct obligations of member banks secured by such notes or bonds of the corporation and to rediscount notes or other negotiable instruments secured by such notes or bonds and indorsed by a member bank." In other words, that seems to contemplate member banks putting a direct loan when it is secured by any class of obligation that the War Finance Corporation puts out under this act. Is that correct or not?

Gov. HARDING. I was just wondering how the member bank is going to acquire the War Finance Corporation bond to put up as collateral. I presume that is related to a previous paragraph—"That the corporation shall be empowered and authorized to issue and have outstanding at any time its notes or bonds in an amount aggregating not more than four times its paid-in capital, such notes or bonds to mature not less than six months nor more than five years from the respective dates of issue," etc.

Mr. WINGO. I assume that the member banks would buy them.

Gov. HARDING. I presume it is this way: You see, the credit situation in the country at this time is spotted. Some banks have very strong reserves and other banks are still very considerably expanded from a credit standpoint. I presume the object of this bill is to effect a better distribution of the burden.

And I may say that during all the strain we have had in the last 18 months that the question of distribution has been the main problem. If the whole load could have been distributed ratably and equitably among all the banks of the country, the burden upon any one bank would not have been excessive. But, due to the fact that some banks being overconservative perhaps stayed out entirely and did not borrow anything, and other banks more liberal minded, or with a greater eye to profits, or for whatever cause you may ascribe, did expand their loans and did rediscount very heavily with the Federal reserve bank, and this brought about a bad distribution.

I presume one object of this bill is to encourage a better distribution; for instance, you may have a bank in an agricultural district that is carrying a heavy burden. That bank very clearly is not in a position to subscribe to War Finance Corporation bonds as an investment. It will borrow from the War Finance Corporation in order to shift its burden or distribute it. There are banks in other sections of the country that have a surplus to invest and that quite likely might desire to buy corporation bonds with the idea of holding them as an investment or of passing them along to their customers. But the thought is that the War Finance Corporation bonds would be regarded as a much better investment for a bank, no matter how flush it was in the matter of idle money, if its note secured by a War Finance Corporation bond was eligible for discount at the Federal reserve bank and if no penalty was imposed upon the rediscount of the note; in other words, if it was given the same privilege that any other eligible paper had.

Mr. WINGO. Possibly you may have misunderstood my question. The matter I had in mind was the technical problem. As you read this act it is true that the only paper that would go to the Federal reserve bank would be the direct obligations of member banks secured by War Finance Corporation paper.

Gov. HARDING. No, I do not think so. Section 6 says: "That the Federal reserve banks shall be authorized, subject to maturity limitations of the Federal reserve act and to regulations of the Federal Reserve Board, to discount the direct obligations of member banks secured by such notes or bonds of the corporation and to rediscount notes or other negotiable instruments secured by such notes or bonds and indorsed by a member bank."

Mr. WINGO. Or it might do this; say, I went to my bank and I made application and I secured a loan?

Gov. HARDING. Yes.

Mr. WINGO. They might bring up my paper.

Gov. HARDING. That is it.

Mr. WINGO. So, in the last analysis, then, there are two classes of paper—I am just trying to find out what it does, not approving or disapproving—and I am trying to get your opinion on that.

Gov. HARDING. I think the purpose of this bill is to make the War Finance Corporation bonds eligible as collateral, more readily marketable, and make them marketable at a lower rate of interest.

Mr. WINGO. There would be two classes. There would be either the direct application of a customer of a member bank to that member bank, which is secured by War Finance Corporation paper——

Gov. HARDING (interposing). Yes.

Mr. WINGO (continuing). Which, in turn, would take that direct obligation of its customer to member banks up to the Federal reserve bank, and indorse it, and that would be eligible.

Then, another class of paper would be that a member bank could go to the Federal reserve bank and say, "I want to borrow, for illustration, an arbitrary sum, $100,000, and I wish to give as collateral for this particular loan to us as a bank, paper of a sufficient amount under the War Finance Corporation, either notes, bonds, or other instruments referred to."

Those are the two possible rediscount operations that the Federal reserve bank might make under this act. You can not conceive of others?

Gov. HARDING. That is right.

Mr. WINGO. Coming back to the proposition you referred to awhile ago, it has occurred to me—and that is one of the reasons for this act—is that the present banking facilities are not sufficient to handle this class of paper and finance this character of operations. So there is a member bank in the condition you suggested a while ago. It has borrowed extensively; it has gone to the Federal reserve bank and borrowed its limit, or say, if it has not borrowed its limit, it has extended all the credit it feels like it should extend its customers; and when those very same customers who are already indebted come up to it and want to borrow money and say, "You go to the Federal reserve bank and get the money." The member bank would say, "Well, under the War Finance Corporation act I can not do that. I have already gone my limit under the Federal reserve act in rediscounting your paper that is eligible paper under the Federal reserve act. You have either got to have War Finance Corporation paper or we have got to have War Finance Corporation paper in order to get additional rediscounts from the Federal reserve bank. We have been extended to the limit and have not been able to invest in any War Finance Corporation paper, and you are in distress and you have not been able to invest in any War Finance Corporation paper. So there is no possible way by which we can give you relief under the War Finance Corporation act unless the corporation makes us advances." Is that correct?

Gov. HARDING. You know under section 5200 of the Revised Statutes there is a limit that a national bank can lend to any individual, corporation or bank, no matter what the collateral.

Mr. WINGO. I was going to come to that next. My proposition was this: That the bank did not have the paper of the War Finance Corporation and neither did his customer have that paper.

Gov. HARDING. I do not see any possibility of any bank that is already badly extended or any customers who are already badly extended borrowing money heavily in order to acquire War Finance Corporation bonds to pledge as collateral. They are not in the market for new investments, either the extended customer or the overloaned bank. These bonds are going to be sold on the market, and the object of this is to make them more readily marketable at reasonable rates of interest.

Mr. WINGO. As a matter of fact, do you not think the only practicable operations under this act in the procurement of funds will be by the War Finance Corporation floating in the bond market its paper and bonds?

Gov. HARDING. I think so. I do not think the bank which wants to borrow from the War Finance Corporation wants to get bonds. It will want a check on the Treasury that it can get the money for.

Mr. WINGO. There will be no profit in buying bonds and then putting up the bonds, because one would offset the other in interest.

Gov. HARDING. Not at all.

Mr. WINGO. Coming down to this other proposition of section 5200, this question arose yesterday, and I believe, Mr. Chairman, I will go to that point that some of the members were uneasy about. Say, here is a member bank that has already borrowed the limit from your Federal reserve system, either by direct borrowings or by rediscounts, and has gone as far as the bank feels like it is safe—that is, the Federal

reserve bank—to extend the accommodations to that member bank. Say by some operation that bank should be able to go to the War Finance Corporation and to rediscount or pledge to War Finance Corporation a lot of these loans that it carries now, "frozen loans" you call them, and to use an arbitrary illustration, say it has $100,000 rediscounts—say it is a country bank—and it goes to the Federal reserve bank, either through a rediscount operation or through direct borrowings to the extent of $100,000. Then say that by some process it should be able to procure, either for itself $100,000 for the War Finance Corporation or its customers that owe it from the War Finance Corporation $100,000, and pay off the Federal reserve bank. Then, in the first event where the bank was able to procure $100,000 for putting up some paper with the War Finance Corporation and got $100,000, and it wanted to loan $100,000 additional during the present and coming crop movement, what would be its position either under section 5200 or under a restraint that the Federal reserve bank might feel it wanted to continue to put on them in going and getting $100,000 additional accommodations, first assuming that it uses the $100,000 to pay off what debts it owes the Federal reserve bank, and then turns around and would want to get $100,000 further credit?

Gov. HARDING. I can not see how the position of the member bank would be prejudiced in the slightest degree, because if the Federal reserve bank makes a loan to the member bank it has the member bank's statements and knows how much it owes the Federal reserve bank and knows how much the member bank owes on the outside.

Mr. WINGO. I would think the Federal reserve bank would be compelled to take that into consideration.

Gov. HARDING. Of course, the Federal reserve bank would take into consideration all the borrowings of the member bank. But I can not see how the member bank's position would be at all prejudiced. We will say that a member bank already owes the Federal reserve bank $500,000, a pretty full line.

Mr. WINGO. There is the point the committee has in mind.

Gov. HARDING. The point is that this member bank for a perfectly proper and legitimate purpose wants to get $100,000 additional money.

Mr. WINGO. From the Federal reserve system.

Gov. HARDING. And instead of going to the Federal reserve system and getting this $100,000 additional money, it gets this loan from the War Finance Corporation. It has incresed its borrowings, but we will assume it has liquid paper representing that increased borrowing, and then if it should need any further discount accommodations with the Federal reserve bank, I do not see that its position with the Federal reserve bank would be altered a particle. But, as a matter of fact, the Federal reserve bank would be better able to accommodate the member bank than might otherwise be the case, because the burden has been distributed between the Federal reserve bank and the War Finance Corporation.

The debt would exist in either event. You see, if the member bank had increased its loan, we will say, from $100,000 to $500,000, and then wanted $50,000 additional from the Federal reserve bank, the Federal reserve bank might say, "Why, here, we have to consider the wants and requirements of all other member banks, and you have gone away beyond your ratable and proportionate share. We do not think you ought to get any more from us." But, if, on the other hand, the member bank had borrowed part of this money from the War Finance Corporation, and simply makes the statement, "We owe the Federal reserve bank so much money and we owe the War Finance Corporation so much money. We would like to get this other $50,000 from you," while the sum total of the borrowing banks obligation is the same in either case, the pressure on the Federal reserve bank is correspondingly less, and therefore it seems to me the Federal reserve bank would be more likely to grant additional credit.

Mr. WINGO. The restriction under section 5200 would only come into play, as I now recall, in the event they wanted to exceed 10 per cent for any particular customer, would it not?

Gov. HARDING. Yes. I wonder if the members of this committee generally remember that the amendment that they put through at the suggestion of the Federal Reserve Board in the early part of 1920, by which national banks were authorized in the case of staple agricultural products, to extend loans equal to 25 per cent of capital and surplus for six consecutive months out of 12 instead of being limited to 10 per cent?

Mr. WINGO. We had that in mind, but some have never been able to understand its workings.

Gov. HARDING. It worked very well, and some of you ought to get credit for it, and you have never taken it. I do not know how the situation last fall could have been handled as well as it was without that amendment.

Mr. WINGO. Some of us thought yesterday that the Federal reserve bank might take the position you have taken, that this is an aid by which the Federal reserve system would be relieved of some frozen credits, and that helping the situation in that manner would give you greater opportunity to take care of current proper paper that is eligible under the Federal reserve act; in other words, that this takes part of the load off of your system, and that the fact that a bank had by proper operation as provided under this proposed act taken care of some of its notes through the War Finance Corporation instead of discrediting it in the eyes of the Federal reserve bank, would merely be a factor in its favor, because that would mean that theFederal reserve bank was not going to have to carry the whole load of that particular member bank, and if the wants and demands of other banks permitted it, the Federal reserve bank would be able then to take care of the additional demands on this member bank without regard to its obligation to the War Finance Corporation, but predicated solely upon the considerations that ordinarily enter into the question of rediscount of the member bank and the Federal reserve bank.

The CHAIRMAN. Governor, this is an instrument that is being put into motion that creates securities which are eligible under the Federal reserve system to the extent of $2,000,000,000, that is, it will have the authority, if this and a similar amendment which is in another committee is enacted into law—that creates $2,000,000,000 worth of additional eligible paper. You suggested that probably a very small portion of that would get into the Federal reserve system. If it did get into the Federal reserve system as eligible paper, if any great amount did get into the system, would not that have a tendency toward inflation? In other words, this $2,000,000,000 worth of credit, if it all went into the Federal reserve system, would supply a basis for a much larger expansion of the note issues and credits of the Federal reserve system, would it not?

Gov. HARDING. Theoretically, Mr. Chairman, that might be true, but on the subject of inflation by means of the issue of Federal reserve notes, I would like to call the attention of the committee to a letter which I wrote on or about the 5th of August, 1919, to Senator McLean, chairman of the Senate Committee on Banking and Currency, in which I pointed out how difficult it was to have currency inflation under the Federal reserve system when every note issued is redeemable in gold.

Currency inflation in the past in this and other countries has come from the issue of irredeemable paper, and I pointed out in that letter of August, 1919, that the reasons for the expansion of currency were very plain: That as business was brisk, production was being speeded up, wages high, and prices high, more than the normal amount of currency was required in daily operations; that a factory probably used every Saturday night twice the ordinary amount of currency for its pay roll, and people carried with them more currency in their pockets than was usual, and I raised the question as to whether the expansion of Federal reserve notes was the cause of high prices and high wages, or whether it was merely the effect of high prices or high wages; and that, conversely, in the so-called deflation or contraction that has taken place since the 1st of January this year, the reverse has been the case.

The Federal reserve note issues have not been contracted because of anybody's desire to contract the note issues. They have been contracted simply because there was no use for them; they reached the peak on the day before Christmas, 1920. Business had slowed down, prices had declined, and factories were working on reduced time; some of them were closed down altogether; others had lowered their wage schedule, so that as the currency would come into the member banks from the ordinary channels of trade, member banks would find that the money that they would take in on Monday and Tuesday and the early days of the week were not called for on Friday and Saturday for use in pay rolls to the extent they had been called for during the flush times, and the currency would pile up and would be of no use to the member bank; it did not count as reserve and, in so far as they were not secured by gold, somebody was paying interest on the currency. So the result of it was the member bank would send the currency back to the Federal reserve bank and pay off loans; and Federal reserve bank then not having the demand from member banks for the currency as it had in former times, turned them back to the Federal reserve agent and released its collateral, and the Federal reserve agent would pile that currency back in his vault. It is all in existence, and we are prepared to issue it again at a moment's notice. By this automatic process currency is expanded and contracted by the Federal reserve system. So it appears that the reserve notes are really elastic currency.

The CHAIRMAN. There is no trouble about currency based on credit expansion or note expansion. The thing that is running in my mind——

Gov. HARDING (interposing). The War Corporation is going to use these credits in export transactions?

The CHAIRMAN. Yes. The part in my mind is that here are certain credits which are frozen now, that are not eligible for rediscount in the Federal reserve system. If through the operation of the War Finance Corporation we make those eligible, might not there be an inflation transaction? I can see where it is possible, although it is a long-drawn-out problem.

Gov. HARDING. That possibly may be true

The CHAIRMAN. Because these funds go into the War Finance Corporation, and they mingle there with $500,000,000 of Government money, and that tends to liquidity.

Gov. HARDING. So far I have tried to speak for the board, and I have said that the only section of this bill the board has considered is this section abolishing the differential in rates.

If I may now speak for myself, personally, I would state that looking at it from purely a banking standpoint, this bill appeals to me. I do not care to discuss it from the standpoint that probably this committee may have to look at it—from the standpoint of the United States or from the standpoint Mr. Meyer may look at it or that the Secretary of the Treasury may look at it, but purely, as a banker, I think this bill is going to be, if enacted into law, a great benefit to the Federal reserve banks, and I do not see anything alarming about it at all.

In the first place, reference has been made on many occasions for several months past to frozen credits. We all know that undoubtedly banks in many sections of the country have been carrying loans for customers that they would like to have liquidated, and there is no doubt many a bank customer is carrying loans against commodities who would like to have them liquidated—who would like to sell his commodities and pay off his debt.

If the War Finance Corporation is going to facilitate exports, and if the major amount of bonds I take it will be issued for the purpose of facilitating exports.

That means liquidation of debts all over the country in agricultural districts; it does not necessarily mean any inflation of currency, because we do not need any additional currency in making exports of goods already produced.

The CHAIRMAN. This bill as it comes to us now carries authority for the War Finance Corporation to buy $200,000,000 of farm-loan bonds. Farm-loan bonds are not eligible for rediscount in the Federal reserve system, but the War Finance Corporation, under this authority, if it remains in the bill, could issue their own debentures, based partially, of course, on the farm-loan bonds, and they would be eligible for rediscount. That, if it went into the Federal reserve system, would be making fixed assets liquid, it seems to me, and that would be an inflation.

Gov. HARDING. Theoretically I think you are correct. But I think those who have looked into the agricultural situation more particularly know that many of the applications to the Farm Loan Board which have been made by farmers for loans on their lands—and the Farm Loan Board can not fill these applications unless they have the funds in hand—have been made in order to pay off pressing obligations which are already outstanding, and that means liquidation at Federal reserve banks. It would be merely a transfer, so far as the Federal reserve bank is concerned, of the form of security it already has.

Mr. WINGO. Is this a correct assumption on the part the chairman has raised: It flashed through my mind as he was stating his proposition that he possibly overlooks this feature, that the only way that this paper could get in the Federal reserve system would be by a member bank that is not in the agricultural section, that is not particularly pressed for funds for the time being, going into the market and buying some of these War Finance Corporation bonds, and later with the increased activity in export trade and the resulting liquidation that might be set up in breaking the jam, that bank might find itself where it needed a short accommodation, say, for 60 days?

Gov. HARDING. Yes.

Mr. WINGO. It would say, "Well, I can either take down commercial paper that is eligible, I can take down United States bonds, or I can take down War Finance Corporation paper." It takes down this War Finance Corporation paper to the Federal reserve bank for a 60-day loan. Its loan matures in 60 days. That bank reasonably anticipates that with the activity in its assets and resulting obligations in 60 days' time it will have ample funds with which to pay off and retire that loan automatically just now as it does under other operations. If it should not be able to do it——

Gov. HARDING (interposing). There would be no Federal reserve notes issued as a result of such a transaction unless there was a revival of trade and a demand for the notes.

Mr. WINGO. I say it could not be done unless there was a revival of trade.

Gov. HARDING. There are two forms of credit—bank note credit and book credit.

Mr. WINGO. Yes.

Gov. HARDING. Sometimes a trader does not want any currency; all he wants is a book credit, something he can draw a check against. For instance, in the export and import business, the European who buys American goods does not want American currency; all he wants is a credit established on the books of some American bank, against which he can check in dollars to pay for goods he buys in our markets.

Mr. WINGO. He can not, with the exchange in the condition it is, use gold. It would be folly to send more gold here unless he was compelled to, and where he can get credit it is to his interest to use credit. But the effect on the currency expansion—just assuming it would be expansion, whether you call it legitimate expansion or unwise inflation—is a thing men differ about. But assuming it would be expansion, it would not be an expansion any different than if that bank had put up a 60-day maturing commercial paper, would it, because it has back of it an asset that you could easily sell if it had to, in the open market? Of course it might be sold at a discount, but I mean it could be liquidated.

Gov. HARDING. You are raising some broad questions that I would prefer not to go into. I will content myself by saying that so far as the Federal reserve banks are concerned I do not see any objection to the bill.

Mr. WINGO. This facilitates resumption of exports, that brings in credits and moves that amount of commodities that are exported from the jamb and tends to facilitate a resumption of normal business, and that in itself would liquidate and have a tendency to reduce instead of increase what is now known as expansion?

Gov. HARDING. I would ask the committee to understand I am discussing this question only as a banker and from the standpoint of the Federal reserve bank. If the committee wants to go into the matter further and consider how the Government of the United States is going to come out of this, because the Treasury is to furnish part of the funds that the War Finance Corporation uses——

Mr. DUNBAR (interposing). You say the Treasury is furnishing funds?

Gov. HARDING. The Treasury has subscribed for the entire capital stock of the War Finance Corporation, $500,000,000. While there may be no legal obligation on the part of the Treasury to pay the obligations of the War Finance Corporation, I take it there is a very high moral obligation, where the United States Treasury is the sole stockholder of a $500,000,000 corporation and the Secretary of the Treasury is chairman of its board of directors.

Mr. DUNBAR. As I understand it, there is a book account of something like $400,000,000 to the credit of the War Finance Corporation. Would this bill, if passed and made a law, enable the War Finance Corporation to finance itself and not draw down any of that $400,000,000?

Gov. HARDING. I do not know. I do not know just what the situation is. I do know this, as a matter of corporation law, that if a corporation with subscribed and paid-in capital stock, or capital stock for which the subscriber is liable, if he has not paid it in, issues obligations, then the holders of these obligations have a prior lien on the assets of the corporation, and they must be paid before the stockholders can get anything. That is true, isn't it?

Mr. DUNBAR. That is true.

The CHAIRMAN. As I understand that proposition, it is this: The War Finance Corporation will be authorized under the Winslow bill, if it is passed, to purchase from the Treasury of the United States certain of its railroad bonds and securities which it now holds, thus placing in the Treasury cash, or giving the Treasury credit on account of its payment of $400,000,000 of capital srock. As I look at it, it is going to create an instrumentality through which the Treasury of the United States can realize by the sale on certain securities which it now holds by selling to the investing public, if possible. If the War Finance Corporation takes this method, it is going to sell them or else issue its own debentures and these securities can be used as collateral with Federal reserve banks. It would be merely a bookkeeping entry. The Treasury of the United States could itself make this bookkeeping entry in the event this bill were passed.

Mr. DUNBAR. But if the United States Treasury is to pay any part of the $400,000,000 which it is now claimed is to the credit of the War Finance Corporation, it would have to borrow the money in order to be able to pay, if it did not have the cash in the Treasury.

The CHAIRMAN. It will pay to the War Finance Corporation, in securities or in cash, through the sale of the railroad securities.

Gov. HARDING. There will be no cash demands on the public, perhaps, if this proposition goes through.

Mr. DUNBAR. There will be no cash demand on the Public Treasury?

Gov. HARDING. No; perhaps not.

Mr. DUNBAR. I inferred from your statements that the cash in the Public Treasury would be increased if this should become law.

Gov. HARDING. If the corporation disposes of its bonds or securities, which it has the right to do under these two bills, it will receive the equivalent of cash for such obligations.

Mr. DUNBAR. In your opinion, if this becomes a law, there can be no cash demand on the Treasury of the United States?

Gov. HARDING. That is my understanding.

Mr. MACGREGOR. Who pays the expense of operation?

Gov. HARDING. The War Finance Corporation. Of course, there may be certain commissions to be provided for and paid, such as brokerage, under the pending railroad bill.

Mr. BLACK. I notice that section 22 of the act relates to export transactions. It does not include live stock. It apparently makes loans to three classes of people: First, exporters, cooperative organizations, and users; second, foreign purchasers; and third, banks, bankers, or trust companies in the United States.

Section 24 of the bill permits loans to bankers and trust companies that have made advances on agricultural products or for agricultural purposes, including the breeding, raising, fattening, and marketing of live stock. That would not permit advances to cooperative organizations of these producers.

The reason that I am asking about this is that a great many of the live-stock producers in the South and in the West are in a distressed condition, which has come about in this way. They have their obligations with the banks secured by their herds, and those herds have greatly depreciated in value. In many cases they are now worth a great deal less than the face value of the obligation. This, of course, would permit the member bank to come to the War Finance Corporation and borrow on that kind of paper to the extent of the secured market, and in that way if the member bank was willing to do it, it would of course be possible to continue to carry. The point, however, is that some of these producers have the fear that the member banks will not want to incur this obligation on their own account and will force the sale of those herds. It is a fact that a great many of the female cattle and the calves are being sacrificed now on account of economic conditions. The producers have this thought: If that section could be amended so as to permit loans in the same way that loans are permitted to an association of producers in section 22, they could borrow to the extent that the cattle would be good security on the first mortgage. By following this method and waiving its lien, there would be a reduction of the loan to the same extent that the bank would be able to reduce it if it forced a sale; and then the bank could continue to hold the paper as a second mortgage—the remaining part of the paper—and the producer would continue to hold his cattle with the hope that later on there would be an increase in value of his herds.

Having studied this bill, will you give expression to your views as to whether or not that could be practically worked out?

Gov. HARDING. I doubt the propriety of expressing my opinion on that point. Here is a bill that does not affect the Federal Reserve Board, except in so far as we have discussed it this morning. It affects the War Finance Corporation, of which I am not a member. The Secretary of the Treasury is chairman of the War Finance Corporation. I will say this, however, that as a result of information gathered on my trip through the West during the early part of the summer and as a result of letters that have recently come to me, I find that there is a very general sentiment prevailing that the measure of relief that has been provided by the so-called bankers' pool, with headquarters in Chicago, is not looked upon by many cattle growers as affording them the relief that they really need. You have, however, described exactly the relief that they want. Many of them have loans at the banks.

I heard of one case in Texas about like this: A cattleman owed a bank $5,000. He had, let us say, 200 head of cattle, and that, plus his energy, honesty, ability, and previous record for paying his debts, was about all he had to offer as security. He received notice from the bank that he must sell 100 head of cattle and apply the proceeds on his note. Now, I may not be giving the figures accurately; I am simply quoting them from memory, but they are near enough to convey the idea. He wrote the bank a letter. He said, in effect, "I am in your debt; I must do as you say, but I want to call your attention to this particular fact: If you force me to sell half of my herd I can get, probably, $2,000, and I can therefore reduce my debt from $5,000 to $3,000. Then you will have as security for that $3,000 only the unsalable part of my herd, or 100 head of cattle that are not as desirable as the 100 that I can sell. Now, what is your ultimate position? For the sake of collecting $2,000 you are going to make it more difficult for me to pay the entire debt than if you let me keep the whole 200 head."

The proposition that you brought up is this, that while the War Finance Corporation would not be expected to make loans without adequate collateral, a bank in this situation would be satisfied to let the farmer mortgage his live stock to another agency that would work along with him, thus benefiting by the natural increase and by added weight, so that the business would continue and the bank would ultimately get every dollar of its loan and at the same time the new agency making the loan would be adequately secured from the very beginning. But you see when breeding cattle are sold that is the end of it.

Mr. BLACK. They realize, of course, that they have no equity at all.

Gov. HARDING. No. Unless we are going to reconcile ourselves to high prices for meats, something must be done to take care of the breeding herds.

Mr. STRONG. Why is it that this stockmen's association, or bankers' pool, as it is called, does not afford the relief that was expected? What is in the way of its proper functioning?

Gov. HARDING. I am unable to say. I do not know.

Mr. STRONG. It is not affording the relief that was expected of it.

Gov. HARDING. I do not know why not.

The CHAIRMAN. It is only within the last week or 10 days that it has been fully organized.

Mr. STEAGALL. They haven't very much money.

The CHAIRMAN. They have $50,000,000, as I understand it.

Gov. HARDING. I understand they have already loaned $5,000,000 and that the organization was started with the idea of putting out $50,000,000 if necessary. Some cattlemen have said that it is not going to meet the needs. On the other hand, the managers of the organization claim that it will. I am not competent to express an opinion. I do know that I get many letters from the West and the Southwest complaining that unless someting more direct is done to take care of the breeding herds the cattle industry is going to get a very bad lick.

Mr. MACGREGOR. You have made a study of this finance proposition, Gov. Harding. This is rather a new style in the history of finance, is it not?

Gov. HARDING. I beg pardon.

Mr. MACGREGOR. This governmental aid to the people of the country is rather new, is it not? In other words, we have never before embarked upon this method, have we?

Gov. HARDING. I think it is the outgrowth of the war. During the war the Government took charge of everything, as you know.

Mr. MACGREGOR. That is to say, we are getting more paternal; we are going into socialism with this assistance idea. Everybody is coming to the Government and asking for help. It is simply the aftermath of the war, I suppose, but we seem to be getting into that notion. We are using war measures after the war is over. Do you think that it is a good thing?

Gov. HARDING. I think it would be desirable, as soon as we can, to get the people to be more self-reliant and let the Government alone.

Mr. MACGREGOR. And let the people walk on their own feet?

Gov. HARDING. Yes. The question is how soon can we make the transition?

Mr. MACGREGOR. We can not make the transition unless we "transit," can we? As was said years ago, "the only way to resume is to resume."

Gov. HARDING. It may take several years to do it, just as it took several years to resume after that was said.

Mr. WINGO. It is a question of the best way to do it.

Mr. STEAGALL. It seems to me that it is a question as to when the war is really over. That has not been settled yet.

Mr. WINGO. It is a question of the best method of transition.

Mr. NELSON. With reference to the bankers' pool, with headquarters in Chicago, they are limited to loans to bankers and to cattle loan associations only, are they not? In other words, they can not loan direct to individuals or farmers' associations or cattle dealers?

Gov. HARDING. I understand so; yes.

Mr. NELSON. The reason I asked that is that the other day the Congressman from Montana showed me a letter which had been sent out to the people out there in which they directly stated that that is the only way in which the organization can afford to raise money. The question with him is this: Most of the banks in Montana have already gone the limit with the Federal reserve banks and other agencies so far as rediscounts and bills payable are concerned. How is the community with banks in that situation and with the cattle industry there to get any relief through this bill?

Gov. HARDING. They claim they are not getting it now.

Mr. NELSON. There is another question that I want to get clear in my mind, and it is along the lines of the one asked by Mr. Wingo. Suppose a bank has rediscounts

and bills payable to its limit with the Federal reserve bank and they simply turn and switch that to the War Finance Corporation. Then if they are in need of assistance in that community and they go to the Federal reserve bank and get further rediscounts and further bills payable and they indorse the paper over to the War Finance Corporation, they are really indirectly carrying the bills payable.

Gov. HARDING. But they might have new paper to offer the Federal reserve bank.

Mr. NELSON. Then, as I understand, under this operation you are not taking cognizance of a situation of that kind.

Gov. HARDING. Oh, yes; and we also take cognizance of the new paper they offer. You see, any Federal reserve bank in rediscounting for any bank expects that the loan will be paid by the maker of the paper. The idea is that the maker is going to pay it. If a member bank has unliquid paper that it has been carrying along and it can transfer that loan to the War Finance Corporation and thus reduce its obligation to the Federal reserve bank, it seems to me that it would certainly put itself in a much better position to go to the Federal reserve bank with any new paper that it may take in order to help the situation.

Mr. STEAGALL. This provides that loans made by the War Finance Corporation may be carried for a longer period and then there is the right of renewal.

Mr. LAWRENCE. What is the limit that the bank can borrow? What is the limit if they have, for instance, $100,000 capital?

Gov. HARDING. There is no statutory limit.

Mr. LAWRENCE. That was done away with by a former amendment, was it not?

Gov. HARDING. I am afraid you confuse the limitation upon the banks with regard to rediscount with the Federal reserve bank and section 5200, United States Revised Statutes. There was a section of the Revised Statutes which provided that no national bank could become indebted at any time for borrowed money in a sum exceeding its capital stock. The Federal reserve act modified that. The law still remains that no bank can borrow any amount greater than its capital stock, from other banks, but there is no limit on its borrowing from the Federal reserve banks——

Mr. LAWRENCE. That answers my question.

Gov. HARDING (continuing). Except as to section 4, of the Federal reserve act, which relates to the duties of Federal reserve banks. They are charged with administering their affairs fairly and impartially. The section which I have in mind provides that the Federal reserve banks shall make such advances as can be safely and reasonably made with due regard to the wants and requirements of other member banks.

Mr. STEAGALL. What would become of your statutory limitation with regard to the amount, considering the inhibition on banks borrowing in excess of their capital stock, as applied to the loans from the Finance Corporation?

Gov. HARDING. The finance corporation act of 1918 contains a provision excepting the national banks from that limitation, so that there is no limit put upon their borrowings from the War Finance Corporation or the Federal reserve banks.

Mr. WINGO. In other words, a country bank with $25,000 capital and $25,000 surplus, can, if the Federal reserve bank thinks it is proper, borrow $100,000, under the law; that is, the Federal reserve banks can let that bank have $100,000.

Gov. HARDING. I know of one case where a Federal reserve bank lent a member bank 20 times the amount of its capital stock

Mr. STEAGALL. And yet they are berating them for shutting down on credits.

Mr. WINGO. Section 5200, as I understand you to say, applies only where a member bank deals with another member bank, or outside of the Federal reserve system; and other than that there is no limitation.

Mr. DUNBAR. A former comptroller of the currency blamed the Federal reserve banks because they had loaned money to branch banks or to national banks in amounts greatly in excess of the capital stock and surplus.

Mr. LAWRENCE. I do not think Mr. Dunbar ought to bring that question up now.

Mr. DUNBAR. It has been up. However, I withdraw it.

Gov. HARDING. I spent two days on these complaints before another committee. My remarks in that connection are going to be printed. However, if it is desired, I shall be glad to answer the question. It will take a long time to do it.

Mr. NELSON. I wish to ask another question. It is not directly on this bill, but I think it has something to do with it. It has something to do with helping the country banks.

One of my colleagues received three letters from country bankers, in which they complained bitterly that the Federal reserve bank had circularized all the depositors of the bank asking them, inviting them, and even urging them to invest in the certificates of indebtedness carrying 5¼ and 5¾ per cent, These banks were in distressed circumstances and had borrowed and rediscounted bills payable at the banks and this thing was undermining their credit.

Gov. HARDING. Did they send you a copy of one of those circulars?

Mr. NELSON. No.

Gov. HARDING. I would like to see one of those circulars.

Mr. NELSON. I suppose that has not the approval of the Federal Reserve Board?

Gov. HARDING. It is not a question of approval one way or the other. The Federal reserve banks, by law, are fiscal agents of the Treasury. I do not know whether the Treasury authorized that circular or not. The Federal Reserve Board has not been a party to any circulars of that kind.

Mr. NELSON. And this particular bank had done that.

Gov. HARDING. I did not know that that had been done.

Mr. STRONG. Is there any fear, in the event this bill is enacted into law, of long-time credits being injected into the Federal reserve system and being offered for discount and accepted?

Gov. HARDING. I do not know how other members of the board feel about it. We have not discussed that. We have only discussed the question of doing away with the differential. My own personal view is that it is going to result in some liquidation of indebtedness of member banks to the Federal reserve banks, or, failing that, it will be a mere substitution of collateral. In some cases the War Finance Corporation might be getting the security that the Federal reserve banks now have, and if the new loans come into the Federal reserve banks, we would have the War Finance Corporation bonds as security.

Mr. STRONG. Would that be a menace to the present financial system of the country to have that long-time credit?

Gov. HARDING. I assume the bonds would be salable, and therefore more liquid than some credits already held.

Mr. STRONG. You do not like to have Liberty bonds in the system?

Gov. HARDING. The War Finance Corporation bonds have been salable in the past.

Mr. STRONG. But so have Government bonds. My thought was this: Since serving on the committee I have come to a realization that the financial system of the country is based upon a system of short time credits. The commercial banks take the deposits of money and lend the money out. The whole system, including your Federal reserve system, is based upon the theory of short time credits. The farmer and cattle men need longer time credits, and because I feel that we should not disarrange the present financial system of the country, I have been suggesting that a different system be built up through farm loan banks, or through some other agency or institution.

Gov. HARDING. Now you are putting your finger on what I think should be done.

Mr. STRONG. I made that suggestion to the Joint Agricultural Committee.

Gov. HARDING. You have said a great deal in those words.

The Federal reserve system, I may say, is based on the idea of short time liquid credits, self-liquidating paper. In the early days we heard a great deal of self-liquidating transactions. When the bill was first drafted it was proposed to limit all loans to 28 days. Here we have agriculture and live stock, which are certainly basic and fundamental industries in this country because all other industries depend in a way, upon them. It is very clear that the farmer, who has only one turnover a year, needs longer credit than the merchant or manufcturer, and it is very clear also that a man who is engaged in raising live stock which business requires two or three years to have a turn-over needs a longer time credit than a jobber does.

The Federal Reserve Board has always opposed amendments which were offered in perfect good faith by those who desired to help the farmer by proposing that agricultural paper maturing in a year or so should be eligible. We have always felt that would be bad for the system. It might end in other long-time credits and might result in improper functioning generally. We have always recognized the fact that there is something lacking that the Federal reserve system does not seem to cover, and can not supply unless you make the long-time credits eligible. There is so much to say against this that I think the best informed opinion is agreed it should not be done.

Speaking of paternalism, and so forth, I would like to call your attention to a fact which I mention with a great deal of hesitation and delicacy, because it is not the business of a member of the Federal Reserve Board to say what other boards ought to do. I am trying, however, to offer an idea which may be of benefit to the committee in its later deliberations. You have now the Farm loan system. That is a Government enterprise. There are 12 farm-loan banks operated by the Farm Loan Board. There are also the joint-stock land banks, and I think the theory of the farm loan act was that the capital stock of the farm-loan banks would be owned ultimately by the joint-stock land banks. Isn't that the case?

Mr. STRONG. The Government's interest in the farm-loan banks would be ultimately owned by the banks themselves.

Gov. HARDING. But that has not come about yet.

Mr. STRONG. Well, they own about $25,000,000 now.

Gov. HARDING. It will come about in time, and that fact strengthens the argument I want to make. The essential point is this: The farm-loan banks, as I understand it, will make a man a loan repayable in annual installments over a period of 33½ years. They help a man acquire property but they do not do a thing to make his farm a profitable operation. Other countries have recognized the need of intermediate credits. There is need in this country for credits running from six months up to, say, two or three years. I mean by that personal credits. The ordinary bank takes care of credits up to six months, with probable renewals, for productive purposes.

Let me give you an illustration: A farmer, for instance, needs money for ditches or silos or for other permanent improvements on his farm. Under the Federal reserve act that paper is not eligible, so far as the farmer is concerned, although it may be eligible in the hands of the man who performs the service, but it is only eligible as it becomes due in three months. The farmer for these purposes needs a loan for one or two years, and the stock raiser needs credit until his cattle are ready for market. Now, would it not be a good thing—and I put it as a question—to consider extending the powers of farm loan banks, which now relate only to long-time credits on real estate mortgages, so as to let them extend these intermediate credits as a permanent proposition? After all, the War Finance Corporation's activities are limited to a short term of years, 10 years from 1918, I think. Would it not be well to consider equipping the farm loan banks which come in direct contact with the farmers, so that they would be prepared to deal with associations of farmers and give these longer credits that can not be depended upon always from the commercial banks? Bear in mind, please, that the federal reserve bank can not do anything for anybody unless the individual first gets his paper discounted by a member bank. The member bank's indorsement is the sine qua non.

I have had letters saying: "We do not know any bank; we do not keep a balance in a bank, and, therefore, they will not lend us money." The livestock business had largely been financed before the war by selling paper in the eastern markets. The banks would buy it in a cold-blooded way. They would say: "It is paper that bears a better rate of interest than the average paper we get bears, and we will take some of it."

All commercial banks have to think about deposits. They have deposits payable on demand subject to check. They have other deposits, time deposits, but on comparatively short time—three, four, and six months. They are always averse, particularly in tight times—and that is just the time their help is needed most—to loading up with long-time paper. It seems to me it would be advisable to appeal to the investment market rather than to ordinary commercial banks to finance the longer time needs of farmers and the live-stock men.

The system might be worked out in this way: Suppose the farm-loan banks were given a fund as a starter and they were allowed to segregate the investments that they make out of that fund and to issue on the basis of two for one—double security—their own obligations running, say, for two years, at a reasonable rate of interest in order to replenish their funds. Assume that they would have, in the first instance, $200,000,000 set aside for them; then as loans were made it would be possible to sell their obligations amounting to nearly $200,000,000 more, thus the total would reach nearly $400,000,000. I am sure that amount would cover every urgent demand. Under those conditions there should always be a sufficient amount available when needed.

It seems to me that some such plan as that might be worked out.

Of course, I realize that it is not my business to suggest how the farm-loan banks should be operated, but it does seem to me that there is quite a gap between six months eligible paper and mortgage loans running 33 years. There is no provision so far for taking care of these intermediate credits running from six months to three years.

Mr. STRONG. I realize that there were no financial agencies in the country to take care of the semilong-time farm and cattle paper that you have mentioned, and yet I hesitated to try to frame legislation to put it into the Federal reserve system or into the present financial system. However, the other day when I went over to this commission on agriculture I made the suggestion that the Federal Farm Loan Board might be given authority to group semilong-time paper of the farmer and cattlemen and on the strength of that issue debentures for one, two or three years. Don't you think that a market could be found for those debentures at a fair rate of interest?

Gov. HARDING. I wish that I might address the committee on that point without having my remarks taken down by the stenographer.

(Informal discussion occurred, which the reporter was directed not to report.)

The CHAIRMAN. Gov. Harding, I wish to say to you that a number of questionnaires were sent out to 30,000 banks, and the replies, numbering between 13,000 and 14,000, disclosed that there are $1,630,000,000 and odd of farm mortgages in these banks. This estimate is based on about 13,000 replies. The replies also indicate that of short-time loans the banks are carrying $3,800,000,000, while the total loans made by all the banks are $29,000,000,000. These figures show that there are practically $5,400,000,000 of mortgages and short time credits held by banks in the United States for the farmers.

Gov. HARDING. There is no doubt but that the banks of the United States have done a great deal in carrying the farmer along.

The CHAIRMAN. In some of these agricultural States, such as Minnesota, Iowa, Missouri, North Dakota, Nebraska, and Kansas, the total bank loans amount to $3,800,000,000: $695,000,000 are carried as mortgage loans to farmers, and $1,500,000,000 of short-time credits are carried by these banks for farmers. In other words, out of total loans in the States that I have mentioned of over $3,800,000,000, $2,190,000,000 are loans to farmers.

Mr. STRONG. If they did not lend to the farmers they would not lend at all.

Gov. HARDING. I would like to say something further in regard to this matter, but I prefer that my remarks be not reported.

(Informal discussion followed, which the reporter was directed not to record.)

Mr. FENN. Did I gather from your remarks that, in your opinion, the land banks could be utilized by this agency as well as the War Finance Corporation?

Gov. HARDING. That was the suggestion that I thought might be worth considering.

Mr. STEAGALL. I would like to ask a question. What do you think about this provision? I want to read you this section:

"To any person without the United Statse purchasing such products, but in no case shall any of the money so advanced be expended without the United States."

What are they going to do if they begin to extend credit to purchasers of American products abroad? What sort of method are they going to have for testing the validity and value of securities they are going to have to take?

Gov. HARDING. That is a question that you had better ask Mr. Meyer.

Mr. STEAGALL. I am not asking that in a fault-finding sense at all. I think the thing we need is to get the folks started to buying abroad, but that is going to involve some legal machinery.

Mr. BRAND. Does this bill meet with your approval and the approval of your board?

Gov. HARDING. The Federal Reserve Board, as I have already stated, has only considered this one particular paragraph.

Mr. BRAND. And you have no objection to that?

Gov. HARDING. The board has no objection to that. So far as the rest of the bill is concerned, I can only express my personal opinion.

Mr. BRAND. Do you mind giving that?

Gov. HARDING. So far as the Federal reserve system is concerned, my personal opinion is that there is no objection to it.

Mr. STRONG. Is there any amendment that this committee should make in the interest of the Federal reserve system?

The CHAIRMAN. Gov. Harding has already stated that he has not studied the bill carefully and that he is speaking only to one paragraph.

Mr. KING. There is a line in section 27 to which I wish to refer:

"Whenever in this act the words 'bank, banker, or trust company' are used, they shall be deemed to include any reputable and resopnsible financial institution with resources adequate to the undertaking contemplated."

In your judgment, what would that include?

Gov. HARDING. I think that is very broad. It would include almost every lending agency.

Mr. KING. Do you think under this act that it would furnish the necessary relief to enable the Edge corporations to function better than they have been?

Gov. HARDING. I think the reason the Edge corporations have not functioned is that they are afraid to take the plunge.

Mr. KING. This will enable the Government to help them out a little.

Gov. HARDING. I think so.

The CHAIRMAN. Isn't the reason that we are considering this legislation that the Edge corporations have not met the situation?

Gov. HARDING. I think that is one reason.

Mr. KING. In other words, something more is necessary?

Gov. HARDING. I think so.

The CHAIRMAN. Before we recess I wish to make a statement with reference to the Winslow bill (H. R. 7994), which proposes to amend the transportation act and also create a new section—section 329. That gives power to buy and sell railroad securities.

In connection with the previous question put to you, Gov. Harding, with regard to these debentures of the War Finance Corporation subject to discount, authority is given in this act to issue $2,000,000,000 of these securities. They would all be eligible to rediscount. If the War Finance Corporation takes the railroad securities, bonds, and otherwise, and their debentures are eligible for rediscount, do you still feel that this will not interfere, and will not be a step toward making eligible for rediscount railroad bonds and securities?

Gov. HARDING. I do not think so. One great problem at present relates to agricultural commodities and the other to the railroad situation. You know, of course, that the debt that the railroads owe is being carried by somebody. Part of it at least must get into the banks. The liquidation of that indebtedness does not mean the creation of additional debt. There should be borne in mind, that although paper may be technically eligible, there is no obligation imposed anywhere in the Federal reserve act, upon the Federal reserve banks, to discount eligible paper. The whole discount schedule of the Federal Reserve System is permissive. The word "may" is used, except in paragraph 11, where the board is authorized to permit or require one Federal reserve bank to rediscount for another. But nowhere in defining the rediscounting functions of the Federal reserve banks or the member banks is the word "shall" used in the law; it is always "may."

You can make this paper eligible, but a Federal reserve bank may exercise its discretion as to whether it is safe or reasonable to discount it for a member bank. They can say "We do not want any more of your paper secured by War Finance Corporation bonds."

The CHAIRMAN. Do you think that the right is sufficiently safeguarded against the possible abuse of the rediscount privilege granted to those securities?

Gov. HARDING. I think with intelligent and careful management and with the power that they have to discriminate as to paper, it is sufficiently safeguarded.

Mr. STEAGALL. In transactions of this kind would one Federal reserve bank know what the other was doing at the same time? The system does not function as one bank.

Gov. HARDING. We publish every week a statement which not only shows the Federal reserve banks what is going on, but it is available to every individual in the United States.

Mr. BRAND. In reference to the Edge corporations, can they take advantage of the bill, if it becomes law, as against the interests of the people?

Gov. HARDING. Edge corporations are not members of the system. They can not rediscount with Federal reserve banks.

Mr. BRAND. Do you think that they had anything to do with the preparation of the bill?

Gov. HARDING. There are only two Edge corporations in existence, so far as I know. One, with a capital of about $2,000,000, is located in New York. Mr. Titus is president. The other is the Federal International Banking Corporation of New Orleans, which is, I believe, a three or four million dollar corporation, paid-in capital.

Mr. KING. They are nondebenture-issuing organizations?

Gov. HARDING. Yes.

Mr. KING. I think you did good work when you separated them.

Gov. HARDING. Yes.

Mr. BRAND. I was wondering if they were responsible for this legislation.

Mr. KING. I think they are.

The CHAIRMAN. Gov. Harding, you have been very generous with your time, and we are very much obliged to you.

The committee will now take a recess until 2 o'clock this afternoon, when Mr. Meyer will be heard.

(Thereupon, at 12.15 o'clock p. m., a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

The hearing was resumed at 2 o'clock p. m., at the expiration of the recess.

The CHAIRMAN. The committee will come to order.

Mr. Eugene Meyer, jr., of the War Finance Corporation, is here at the request of your chairman. I am very sure the members will be glad to hear Mr. Meyer's statement. I suggest that we permit Mr. Meyer to proceed without interruption until he has concluded his main statement, and then, I am sure, he will be glad to answer any questions that the members of the committee may care to propound.

STATEMENT OF MR. EUGENE MEYER, JR., MANAGING DIRECTOR WAR FINANCE CORPORATION.

Mr. MEYER. Mr. Chairman, I think I have before me a copy of the bill as it passed the Senate. I am not quite certain that every change made is incorporated, but I believe it is. I will take up in order the extension of the powers of the War Finance Corporation as they are described in the various sections of the bill, if you approve of that method.

The CHAIRMAN. Yes. Choose your own method of presentation.

Mr. MEYER. The first section merely defines the term "person," and the second adds the Secretary of Agriculture to the number of directors. The Secretary of the Treasury, as ex officio chairman of the board of directors, is, of course, in a general way, in touch with our policies and operations. But with so many other duties devolving upon him, even the Secretary of the Treasury, who is in the same building with us, finds it impossible to attend our meetings of a routine character. We keep in touch with him, and he understands and follows our business, and any question, involving a determination of policy that may come up are always fully discussed with him.

The addition of the Secretary of Agriculture is made for a purpose that I do not entirely understand, because, obviously, the Secretary of Agriculture will not be able to sit with our board at all meetings and give the time to the routine work that the active directors give. The Secretary of Agriculture, however, is in thorough sympathy with us and is heartily cooperating with us. We consult with him. He testified at the hearings on the Norris bill that he was giving and getting the fullest cooperation. Personally, the Secretary of Agriculture would make a very welcome addition to our board, but whether or not it is practicable for him to give the necessary time to the work is questionable. He is already a member of several boards, and while we would welcome his presence at our meetings, which take place at regular intervals and frequently on sudden call or short notice when business comes up that needs prompt consideration and attention, I think it would be practically impossible for him to attend. It is often the case that citizens come in and present matters to us that require very prompt attention. On yesterday afternoon, as an example, we had a meeting at about 5.15 because the matter under consideration at the time was of such nature that it required a telegraphic answer. Frequently persons appear who desire to have their business attended to immediately, because they want to get away, and we do our best to help them so that they will not have to stay over a day or two.

I think that is the only change in the second section except that, in the latter part of the paragraph, the time is fixed for the termination of the corporation's activities, for it says: "* * * After six months after the termination of the war, the date of such termination to be fixed by proclamation of the President of the United States." I think it would be better if the date were made July 1, 1922, because it seems to be uncertain, as a matter of fact, whether or not there will be a proclamation of the President. We feel that July 1, 1922, would be an appropriate date on which to terminate positive action in connection with these powers.

Section 3 of the bill adds several new sections to the War Finance Corporation act. Section 22 speaks for itself. It provides for an extension of our present powers so that we may be able to render greater assistance in connection with the financing of our staple agricultural products until they can be exported or sold for export. We are, as you know, working under the resolution directing resumption of activities, and are trying to investigate and discover the possibilities of the export trade. In connection with advancing export trade by granting credits, we find that the foreign buyers do not want more credits than they were getting, and that the credit extensions through ordinary channels for commercial purposes have increased a great deal during the past few months.

The Federal Reserve Board recently made a ruling authorizing the Federal reserve banks to discount export and import paper having a maturity of six months instead of only three months as formerly; and the banks generally have been extending their activities, so that substantial credits in connection with foreign trade now are pretty fully supplied.

What has become clear is this, that Europe is not able to buy agricultural products in the quantities which it was accustomed to purchase before the war and in the short period during which it formerly supplied its requirements.

An investigation of the exports of cotton, which is our leading export commodity, showed that previous to 1914 sometimes 80 per cent of our cotton exports went forward during the six months from September to February, inclusive; that is to say, we shipped 80 per cent of the exports of the whole year's cotton during the first six months

of the cotton year; so that practically the whole year's supply for European buyers was purchased here and the most of it shipped and financed by European capital. Since the war and since the armistice we find that from 45 to 55 per cent—averaging about 50 per cent—is the amount that we have exported during the six months from September to February, inclusive.

If we should assume that the cotton exports may amount to 6,000,000 bales, this would mean that we would have to carry into the second six months 30 per cent of the cotton which formerly would have been shipped in the first six months. In other words, approximately 1,750,000 bales of cotton that, under normal conditions, would have been shipped in the first six months would now have to be carried into the second six months. That result obtains not only where there is a surplus, but possibly in other cases, and this condition may warrant special financing until we have adjusted our banking and commercial machinery to meet it.

I think that the situation has developed clearly in our minds, and I think also that our banking system will, in the long run, have to recognize that situation unless Europe is again able to buy its year's needs and finance them in a short period.

Meanwhile, section 22 will enable us to assist in carrying stocks here for a longer period than usual awaiting exports, or to assist in marketing in a more orderly manner.

Paragraph (a) of section 22 fixes the maximum interest rate which we may charge for advances in this connection at 1½ per cent in excess of the rate of discount for 90-day commercial paper prevailing at the Federal reserve bank of the district in which the borrower is located at the time when such advance is made. There is no objection to that on our part. It is all right in our opinion. I think we never charge over that.

Mr. Wingo. What is the necessity for the differential?

Mr. Meyer. Long-time money is, of course, worth more in the market than short-time money. We are not in favor of upsetting market usuages unreasonably. This is an emergency aid, and a temporary aid, and we are not trying to get people away from the banks. The banks would probably charge about the rate of interest that is set forth.

Mr. Wingo. We have been led to believe that this would relieve the banks.

Mr. Meyer. Under this paragraph? This rate of interest has nothing to do with the banks.

Mr. Wingo. What has it to do with?

Mr. Meyer. If you will permit me, I will come to that in a moment.

Paragraph (b) reads:

"To any person without the United States purchasing such products, but in no case shall any of the money so advanced be expended without the United States. * * *"

That paragraph is one which, I think, to say the least, is debatable. The War Finance Corporation, in the original act, was conceived of as an emergency aid to American citizens and American institutions. It was only after very careful thought that we decided not to provide for the lending of the funds of the corporation to foreign agencies. We desired to help American citizens and to aid in building up our own institutions by providing them, in cases of need, with funds with which they might, if they saw fit, do business and give credit to foreigners.

In international trade and finance this country has, I think, been at a disadvantage because we have not had the trained personnel or the many generations of experience which England, Holland, Germany, and other European countries have had. We have vast resources, and I think the problem of our foreign trade is to use our resources intelligently and to put those resources back of the American end of the business. If we are authorized to lend to foreigners we undoubtedly will be offered good securities by foreigners in some cases.

I could conceive, for instance, with respect to cotton, which, after all, is our principal export commodity, of a syndicate of cotton buyers from Manchester presenting a request for a loan to the War Finance Corporation; and I could conceive of their presenting applications for loans that would be so good that we would grant them readily. I was just wondering, however, whether or not it is to the advantage of our growers and merchants, and in our interest in international commerce, to place the resources of the country in the hands of foreign buyers instead of in the hands of domestic sellers. As I have already said, we are at a disadvantage with regard to personnel. If we put our resources into the hands of the trained personnel representing the buyers on the other side, I fear that ultimately there will be a great deal od dissatisfaction with the results.

Paragraph (C) of section 22 seems to be in line with good public policy. It provides for loans to any bank, bankers, or trust company in connection with the business described in the previous sections. It means merely that the same powers may be

used to finance banks which have financed merchants or associations or producers, and so forth. It is a rediscount section.

Under section 23, the extension of loans already made, through renewal and substitution, is provided for and a limit is set as to renewals. And another method of taking security is set forth which seems entirely in the public interest.

Under section 24, we find this language:

"Whenever in the opinion of the board of directors of the corporation the public interest may require it, the corporation shall be authorized and empowered to make advances upon such terms not inconsistent with this act as it may determine, to any bank, banker, or trust company in the United States which may have made advances for agricultural purposes, including the breeding, raising, fattening, and marketing of live stock," etc.

This section, considering what I have read and what follows, is addressed particularly to the problem of the small country banks, although it is not limited to them. It applies especially to small banks with large loans which, perhaps, may be a little slow, although perfectly good. On account of unliquid loans it has been made pretty clear that the whole banking situation in some of the agricultural districts has become congested. Many of these banks have ceased to function in any active way. They await the slow process of thawing out. We feel that perhaps with this power, the thawing-out process may be somewhat accelerated along sound lines and without undue risk. Not all frozen loans are bad loans by any means; they may merely be slow. Of course, the War Finance Corporation does not intend to take any loans without adequate security, as provided in the act. The same extension of time is provided and permitted in this section as is authorized in connection with other loans

Under section 25, the War Finance Corporation is authorized to buy $100,000,000 of farm loans during the current calendar year and $100,000,000 more during the coming year. This matter is one that, personally, I know nothing about. It has never been presented to the War Finance Corporation and we have never been asked by the Farm Loan Board for help. I do not know whether they need it or whether they do not. It is a question for you to consider and perhaps to take up with the chairman of the Farm Loan Board. We have no information on the subject.

I come now to the paragraph regarding the purchase of Edge law debentures.

Mr. KING. What paragraph is that?

Mr. MEYER. Section 24. The language immediately preceding the proviso in that section authorizes the corporation to purchase or sell or otherwise deal in debentures, promissory notes, or other obligations, adequately secured, issued by banking corporations organized under section 25 (A) of the Federal reserve act, which are commonly called "Edge law banks," but the proviso contains a limitation which negatives, or rather narrows, the possibilities of usefulness.

The Edge law amendment to the Federal reserve act was passed by Congress with the hope that it would furnish a means for adequate international financing. It has not been effective, owing perhaps to temporary conditions.

The only important Edge law bank is the one in New Orleans, with $7,000,000 subscribed capital. We have been in contact with that bank. In fact, they say that they raised their capital and organized largely for the purpose of cooperating with the War Finance Corporation.

So far as debentures are concerned, I may say that there have been no Edge law debentures for sale, nor have any been offered. We thought that by giving the War Finance Corporation authority to purchase some of these debentures, thus cooperating in the marketing of them in the public investment market, we might accelerate the coming into usefulness of the Edge law banks, which Congress hoped would add materially to the banking resources of the country for our foreign trade.

I think the proviso which says that "no purchase of debentures, promissory notes, or other obligations of the said banking corporations shall be made," etc., rather narrows the possibility of the War Finance Corporation being helpful in a general way. It could function under the restriction, but we can do all that the proviso would permit us to do under powers that we already have. Certainly, the proviso adds nothing to our present powers, and it may be rather hampering. That is a matter for you to consider.

In section 26 the limitation on the advances referred to in preceding sections is fixed at a total of $1,000,000,000.

Under section 27, the corporation is empowered and authorized to investigate, upon its own initiative or in cooperation with other governmental agencies, foreign market conditions and to advise where disposition may be advantageously made of certain agricultural products.

In view of the fact that the War Finance Corporation will terminate its activities, except in connection with liquidation, on July 1, 1922, or thereabouts, it would seem

that the Department of Commerce, the Department of State, or some other permanent department of the Government, might more properly be given powers of that character. Perhaps the Bureau of Foreign and Domestic Commerce of the Department of Commerce would be the proper agency. In fact, I understand it is already doing some work of this sort. I hardly see how we could set up any organization to do anything of any real value under that section within the time that Congress intends the corporation to function. We always do everything we can to help in any event. The Department of Commerce is there to do work of this kind, as are the Departments of State and Agriculture. The Department of Agriculture, through its Bureau of Markets, is studying foreign markets, and the Congress recently gave it a special appropriation of $50,000 for this purpose.

Mr. BLACK. From what section are you reading?

Mr. MEYER. I beg your pardon.

Mr. BLACK. From what section are you reading? I do not seem to be able to find the lines to which you have reference.

The CHAIRMAN. It is section 24.

Mr. BLACK. I have before me the bill as it passed the Senate, and as it appears in the Congressional Record.

Mr. MEYER. Section 25 is at the top of the page. That concerns the purchase of $200,000,000 of Farm Loan bonds.

Mr. WINGO. You referred to section 27 a moment ago.

Mr. MEYER. I am sorry that we do not have uniform copies.

The CHAIRMAN. You have referred to the language which reads:

"The corporation is further authorized, upon such terms as it may prescribe, to purchase, sell, or otherwise deal in debentures, promissory notes, or other obligations, adequately secured, issued by banking corporations organized under section (A) of the Federal reserve act."

Mr. BLACK. I have located it now.

Mr. MEYER. Is everything clear up to that point?

Mr. BLACK. Yes.

Mr. MEYER. Section 27 authorizes the investigation of foreign market conditions, which, as I say, already is being done by the Bureau of Foreign and Domestic Commerce of the Department of Commerce, and other agencies. The Department of Agriculture, as I stated a moment ago, has a special appropriation of $50,000 for that purpose; and the State Department also has a foreign-trade department. We are glad to assist in any way that we can and whenever the opportunity offers, but, of course, we can not undertake to set up a competitive organization that would perform practically the same functions that other agencies of the Government are already performing.

Section 27 merely defines the phrase, "banks, bankers, and trust companies," which, as used in the bill, is somewhat broader in its intention than the technical definition.

Mr. BRAND. Does that include State banks?

Mr. MEYER. Yes; that is exactly the point it is intended to cover.

Mr. BRAND. Not member banks?

Mr. MEYER. Yes. Perhaps some of them are most in need of help. In any event we had some of them especially in mind.

Under section 29 the War Finance Corporation would be legally authorized to enjoy the benefit of the cooperation of the Comptroller of the Currency in connection with loans to banks. This section is intended to cover those cases where banks apply for loans and are willing to have an examination made in order that they may obtain the advances for which they have applied and of which they are in need.

Under section 29 the interest rate which bankers may charge on funds loaned to them by the corporation is limited to 2 per cent above the rate charged or received by the War Finance Corporation on such money.

Mr. STRONG. Do you think that the 2 per cent limit is necessary?

Mr. MEYER. If a limit is fixed, it should not be less than 2 per cent, though we know of cases where bankers have charged less.

Mr. FENN. It is not obligatory in that section, is it?

Mr. MEYER. Only in this way: Money loaned by the corporation to bankers could not be reloaned at a rate in excess of 2 per cent over the rate charged or received by the corporation.

Mr. STRONG. Might it not be loaned at 1 per cent? Isn't that a pretty good spread—2 per cent?

Mr. MEYER. Not for long-time money. The ordinary acceptance charge for 90 days would be from three-eighths to one-half of 1 per cent, or at the rate of from 1½ to 2 per cent per annum. Of course, it depends somewhat upon the character of the loans.

The best of them probably would not be less than 1½ per cent, and might be 2 per cent per annum.

Mr. STRONG. Isn't it contemplated that those loans shall be longer than 90 days?

Mr. MEYER. Yes.

Mr. STRONG. If they lend several million dollars, it seems to me that 2 per cent is a pretty good spread.

Mr. MEYER. There is always a great deal of expense attached and considerable responsibility assumed. I think that banks which indorse commercial paper, or commercial loans, taking the best of them, ordinarily would charge at least 1½ per cent, and I believe that 2 per cent would not be unreasonable.

Mr. BRAND. What does the corporation charge?

Mr. MEYER. Our loans to exporters are being made on a basis of 1 per cent above the 90-day discount rate, and in the case of good bankers we make loans at 6 per cent for anything up to six months. For the best banks the rate would be, perhaps, 6¼ or 6½ for nine months. That is determined after consideration of what we think the cost of the money would be to us. It is not the idea to make noney, but we think we should not lose money for the Government of the United States. These particular limitations may be all right in certain kinds of business, but the cotton or the wheat exporter not only wants his bank to finance him, but also is anxious frequently to have the bank relieve him entirely of responsibility. We have had some of that business. We have exported some wheat under a plan by which bankers took the foreign obligations and gave us their own notes, with the foreign obligations as collateral. The exporter thus was released so far as liability was concerned. In this section you would limit to 2 per cent above our rate the charge that the American bank may make to the foreign buyer. This may deter business, because where the bankers take responsibility 2 per cent may not be enough in some cases, although it seems to be quite enough in others. They may not be willing to do business on that basis. I think the limitation, while it is well in a way and will work well in some cases, may hamper business with the exporter, or the American borrower or merchant, until they get relief through the banks taking the foreign obligations, as is now sometimes done.

That is the only thing that occurs to me in connection with my study of this question, so far as the interest rate is concerned.

Section 4 is merely a technical change which seems to be all right.

Section 5 of the bill amends section 12 of the present act and reduces the limitation on the amount of bonds that may be issued from six to four times the capital stock of the corporation. In other words, under the present act, the corporation has power left over from the war to borrow six times its capital stock, or $3,000,000,000. The present bill contemplates a reduction to four times its capital stock. The authority to do business under the act, even as amended by this bill and even allowing for the financing of railroad obligations or rendering assistance to the director general, as proposed in the bills introduced by Senator Townsend and Representative Winslow, would not require bond issues exceeding three times the capital stock. It occurs to me that the fixing of the limit at four times the capital stock, when the possible use of funds, even if fully employed, could not exceed three times the capital stock, would not be helpful, and in fact it might affect the sale of bonds. It seems to me that the limit might be reduced without injury. I can not see how authority to issue bonds to an amount considerably greater than we are authorized to use has any particular purpose. The only other authority would be to buy Liberty bonds, and we have not bought any for over a year.

Mr. APPLEBY. Why haven't you bought any?

Mr. MEYER. The sinking fund operations are now conducted by the Treasury. During 1918, 1919, and 1920 the War Finance Corporation conducted purchases in the market, but that practice has since been discontinued.

The other section seems to be fairly clear.

Section 6 changes the rediscount rate at the Federal reserve banks for the bonds of the War Finance Corporation. Instead of having them rediscountable at 1 per cent above the 90-day rate, they are made rediscountable at the 90-day rediscount rate on commercial paper, which ordinarily would be above the rate for Government paper, or at least equal to it. There is nothing obligatory about this. The present differential of 1 per cent was authorized during the war period, when it was thought that the rediscounting of our bonds on a large scale might interfere with Government financing operations through great inflation and dangers of that character. Those dangers appear to be a matter of the past, and it is interesting to note in this connection that out of a total of two and a half billion of the Treasury certificates, less than 10 per cent are now rediscounted at the Federal reserve banks.

There is no particular object in maintaining the differential. The only purpose in eliminating it would be, perhaps, that it might make our bonds more easily marketable. I do not believe, however, that they would be presented for rediscount in large amounts.

Mr. WINGO. Section 6 changes the existing law merely in the amount of the differential?

Mr. MEYER. That is my understanding.

Mr. STRONG. When does the Finance Corporation terminate under this act?

Mr. MEYER. Under this bill, as I have suggested, it would cease to function on July 1, 1922, so far as the making new advances is concerned, but it would have power to extend advances for a year. I mean that it would make loans only between now and July 1 of next year, but it may extend loans made during this year after they matured, for a total period of two years.

Mr. STRONG. Do you contemplate using the War Finance Corporation for the purpose of assisting in the exportation of surplus?

Mr. MEYER. That is what we have been doing, so far as possible, under our existing powers. This bill broadens our powers and also gives us specific authority to finance our surpluses here, awaiting export.

Mr. STRONG. Do you think that if this brings the desired results, the results that we are expecting, it ought to be terminated a year from now?

Mr. MEYER. Yes; because I think it is in the nature of an emergency due to temporary conditions. We have the Federal reserve system, large banking facilities, and the Edge law banks provided to take care of the permanent international finance situation.

Mr. STRONG. But they do not seem to be able to take care of the international situation.

Mr. MEYER. That is the reason we want to help them temporarily to do it. I think a year from now the cotton surplus will be materially reduced. We are making progress along the lines of readjustment. Conditions are improving, although they are still far from favorable. Nevertheless, they are getting better. The markets are getting nearer normal; the whole world is coming back slowly but surely. I think that by July 1 of next year, you will be glad to disband this, the last of the war organizations. We feel that the need will have terminated by that time. If it has not, you can extend it.

Mr. STRONG. There is a lot of machinery there to use for just one year.

Mr. MEYER. The machinery is there. It has not ended its life. This bill proposes to extend its life and to broaden its powers at this time, preparatory to allowing the usual institutions and the permanent organizations of the Government to meet our needs.

Mr. STRONG. Before the war England financed our surplus, did it not?

Mr. MEYER. Very largely.

Mr. STRONG. Now we have to do it ourselves if it is done at all?

Mr. MEYER. That is what we think.

Mr. STRONG. After three long years we have not started.

Mr. MEYER. It is hardly fair to say that.

Mr. STRONG. We are not doing it.

Mr. MEYER. We are doing it, but we are dealing with difficult conditions that are temporary. It may be that some of our bankers indulged too freely in foreign credits and a great many losses have been incurred. Indeed, as I have said before, we have not the personnel in this country that England, Germany, Holland, and other countries in Europe have developed in the course of two centuries. I think that we should not find fault with ourselves too much. I think that we are now developing our personnel. But we will never develop it if we always keep a crutch under it. At some point we will have to remove the crutch.

Mr. STRONG. I wondered if the power should be extended beyond a year.

Mr. MEYER. I think that next spring, when Congress is in session, would be the time to consider that question.

Mr. STRONG. Let us hope that we will not be in session next summer.

Mr. MEYER. Oh, I said next spring. I think we could get a unanimous vote on the summer question.

The CHAIRMAN. If you will pardon the reference, I wish to call your attention to something that you have already said. As I understood you, you said that the Secretary of Agriculture was not deemed by you to be an absolutely necessary addition to your board.

Mr. MEYER. I am a little embarrassed in discussing that matter, because I consider myself a warm friend and great admirer of the Secretary of Agriculture. Therefore,

I would be very glad to see him attend our sessions every day and all day, but, from a practical point of view, I do not see how he can meet with our board regularly. As he stated before the Norris committee, he is giving us the fullest cooperation and is getting the same from us.

Dr. Taylor, the head of the Bureau of Markets and Crop Estimates, has been working with us, and he is most willing to cooperate. We are very glad, too, to have his cooperation. So I really do not know of any reason for putting the Secretary of Agriculture on the board, although I may not be in a position to discuss it intelligently.

The CHAIRMAN. There have been several proposals made recently that the Secretary of Agriculture be put on the Federal Reserve Board.

Mr. MEYER. Of course, if the Secretary of Agriculture were to sit on all the boards which have to deal with matters relating to agriculture, he would be a very, very busy man.

Mr. KING. Wouldn't he be a valuable man under section 22?

Mr. MEYER. Under section 22?

Mr. KING. Yes, where loans are made to the producer and where certain conditions must exist.

Mr. MEYER. He would give us his views now. He would cooperate with us, as he stated before the Senate Agricultural Committee. We do not do anything as to agricultural policy without consulting him and without letting him know what we are doing. I pay him frequent visits personally, and the head of the Bureau of Markets and Crop Estimates, Dr. Taylor, who is a thorough agricultural economist, visits us, so that we are in constant touch and are always cooperating.

Mr. KING. But he has no vote on the board.

Mr. MEYER. No, he has not, but, on the other hand, he is satisfied with the cooperation he is getting, and has so stated. If you are to rely on his voting, then he would have to spend much of his time at the Treasury. He is a very good friend of mine and I would really like to have him sit all day in the office with us.

Mr. WINGO. This merely gives him formally and legally the right to do what the witness says he is now doing voluntarily without legal mandate.

Mr. MEYER. Of course, considered from that standpoint, it is a very simple matter; but when a man is made a director he is responsible for the acts of the corporation, and unless he were able to sit there in daily conferences with the board, that responsibility might be too great. Of course, we do not like to hold meetings without inviting all the directors. We do notify them. You can readily see that it is difficult for heads of departments to attend all meetings of the boards of which they are members.

Mr. STRONG. How many directors have you now?

Mr. MEYER. Four in addition to the Secretary of the Treasury, who is ex officio chairman.

The CHAIRMAN. In connection with the termination of powers conferred under this act, you have no objection if the committee definitely fixes that date as of July 1, 1922?

Mr. MEYER. I think your suggestion is good, because it would be better than having an indeterminate time, as, for instance, within so many months after the termination of the war.

The CHAIRMAN. I rather gained from your discussion of section 22, conferring upon you power to make advances to producers and dealers, etc., that some members of the committee seemed to feel that we should confine our advances to Americans.

Mr. MEYER. There is a great deal to be said in favor of that policy. That is the way in which the original act was drawn. It was an aid which the United States placed at the disposal of its own citizens. It is a question for Congress to decide whether it wants it to be for Europeans or Americans. The placing of our funds at the disposition of the foreign purchasers is thought by some to be not especially in the interest of our producers.

Mr. KING. Wouldn't that interfere with the Edge law?

Mr. MEYER. It would make competition. There would be less business for the Edge law banks probably if this provision went into effect.

The CHAIRMAN. It has not had much of a chance.

Section C gives the corporation the right to fix the rate of advances instead of fixing it definitely. What is your thought in that respect?

Mr. MEYER. To banks and trust companies?

The CHAIRMAN. Yes.

Mr. MEYER. Our thought is that, as to banks, it is difficult to determine the rate exactly under a general rule. We try to lend to banks at rates which are a little lower than those charged to exporters or business men so that we will not be in direct competition with banks. We do not try to get the people away from the banks.

The CHAIRMAN. You would be governed somewhat in fixing those rates by the Federal reserve rate?

Mr. MEYER. Yes. We do not usually lend below the Federal reserve rate. Of course, when we get a good bank to indorse a loan on merchandise, we are getting tangible security, which, from the point of view of the interest rate, should be recognized, as it is in commercial practice. The provision to which you refer follows the precedent set in the original act.

The CHAIRMAN. In regard to section 25-A, which authorizes you to accept farm loan bonds as security, and to purchase them, as I understand it, it was not in the original draft, but was inserted on the floor of the Senate.

Mr. MEYER. The agricultural committee did not report that in the original bill.

The CHAIRMAN. I have talked to Judge Lobdell concerning that amendment. It is his position that the farm loan bank is not seeking, nor does it desire, this authority. He takes the position that the farm loan act gives them full authority to act.

Mr. MACGREGOR. It would be contrary to his previous statement if he did insist upon this.

Mr. STEAGALL. That is the reason he is not insisting—because he promised not to.

Mr. STRONG. No; but because we passed a law to enable his board to function.

The CHAIRMAN. Your corporation is not insisting upon that amendment?

Mr. MEYER. We do not know anything about it.

Mr. APPLEBY. This clause you refer to is for $200,000,000?

The CHAIRMAN. Yes. It has been amended to read $100,000,000 for 1921 and $100,000,000 for 1922.

Mr. DUNBAR. Does that mean $100,000,000 in cash or securities?

The CHAIRMAN. It is $200,000,000 of the bonds of the Federal farm loan system.

Mr. DUNBAR. Would that mean that $100,000,000 would come out of the Treasury of the United States?

Mr. MEYER. It would mean that it would come out of the Treasury.

The CHAIRMAN. The treasury of the War Finance Corporation.

Mr. DUNBAR. Not the United States Treasury?

Mr. MEYER. We would probably draw upon the funds in the Treasury of the United States.

The CHAIRMAN. Is it not reasonable to suppose that if the farm loan system can not sell its bonds another corporation like the Finance Corporation, which is another arm of the Government, could sell those same securities?

Mr. DUNBAR. I want to know if cash from the Treasury of the United States is going to be drawn. Mr. Meyer says it is. He thinks it is possible that they may draw on the $400,000,000 to their credit.

Mr. MEYER. If we were authorized to buy $100,000,000 of farm loan bonds, I suppose the Secretary would use part of the $400,000,000. I do not know about that.

Mr. DALE. This does not amount to an additional appropriation.

Mr. MEYER. No; it does not amount to an additional appropriation.

Mr. DUNBAR. If you draw on that $400,000,000, you mean?

Mr. DALE. That is already appropriated.

Mr. MEYER. It would use Treasury funds.

The CHAIRMAN. In regard to section 27, which reads, "The corporation is empowered and authorized to investigate upon its own initiative or in cooperation with other governmental agencies foreign market conditions and to advise where disposition may be advantageously made of such agricultural products," my understanding is that you are not seeking authority to cover that phase, but that you now have sufficient facilities, through cooperation of already organized bodies with sufficient money, to get the information you desire.

Mr. MEYER. This does not contemplate providing us with money so much as it does with facilities for collecting information in order that we may advise producers where they can sell their goods, and that is something that is being done by other departments of the Government now. Of course, in practice, if anybody comes to us, we send him to the Department of Commerce or get for him information from that department.

The CHAIRMAN. Now, this other authority, given under section 4, which repeals section 21, provides for the issuance of debentures, notes, etc., to the extent of $2,000,000,000. That is, of course, a reduction from the original authorization. As I understood it, a billion and a half is all you are authorized to expend under this?

Mr. MEYER. Yes; under this bill and also under the proposed railroad legislation.

The CHAIRMAN. You would not object to a reduction of that kind?

Mr. MEYER. No, sir.

Mr. NELSON. Under this bill you are limited to $1,000,000,000 in your operations under certain sections of the act.

Mr. MEYER. Which are all the sections under which we will make advances. That is to say, all our activities involving the use of funds are covered by those sections, aside from the purchase of railroad securities from the director general if the pending railroad leigislation is enacted.

Mr. NELSON. It is under sections 21, 22, and 24 that you act?

Mr. MEYER. Yes.

Mr. NELSON. And 21 is the present existing section?

Mr. MEYER. To finance exports.

Mr. NELSON. Yes. Section 22 you have explained.

Mr. MEYER. Yes.

Mr. NELSON. What is 24?

Mr. MEYER. That is intended to provide relief for banks, particularly small country banks.

Mr. NELSON. That also includes the Edge law?

Mr. MEYER. Yes.

Mr. NELSON. And you contend that the aggregate amount under this act should be a billion?

Mr. MEYER. That is the way the bill reads.

Mr. NELSON. It might as well say so in this act.

Mr. MEYER. It does so provide, except for the purchase of $200,000,000 of farm loan bonds, which would be additional. But $100,000,000 of that is for the coming year; and if we assume that the number of loans would be very large, many would be paid off in a year.

Mr. NELSON. Is there a possibility that the Secretary of the Treasury might unload $100,000,000 farm loan bonds?

Mr. MEYER. He has $189,000,000 now. He could do it without going very far, if he had authority and wished to do so.

Mr. NELSON. What is the amount of the capital account?

Mr. MEYER. $500,000,000, of which about $403,000,000 is on deposit with the Treasurer of the United States.

Mr. NELSON. There are some who think that instead of giving you $403,000,000 cash it might be well to give you $100,000,000 in farm-loan bonds and railroad securities, and then if you need additional cash you can issue debentures to get it. There is a possibility that shortly you could sell farm-loan bonds at par.

The CHAIRMAN. Have you authority to take these farm-loan bonds from the Treasury?

Mr. MEYER. Not under this bill.

The CHAIRMAN. Have you authority without the bill?

Mr. MEYER. No.

Mr. NELSON. Are the bonds of the War Finance Corporation tax exempt?

Mr. MEYER. They are exempt from normal taxes.

Mr. WINGO. As I understand it, there will be a billion under this new act, and under the Winslow bill there will be a half billion.

Mr. MEYER. Not over that.

Mr. WINGO. You contend that it should not be four but three times, because it might affect the sale of your securities?

Mr. MEYER. Theoretically; yes.

Mr. WINGO. Do I understand you to say that if it is desired to take the farm-loan bonds out of the Treasury it would be necessary to amend section 25a?

Mr. MEYER. Section 25 A refers to the purchase of farm loan bonds from the Farm Loan Board, not from the Treasury.

Mr. WINGO. It would be necessary to amend that provision so as to authorize you to do that.

Mr. MEYER. What purpose would that serve if we bought them from the Secretary of the Treasury with his money?

Mr. WINGO. That is not the proposition. I am not talking about that feature of the bill.

Mr. MEYER. I see your point. It would require an amendment, because that provision only covers the purchase from the Farm Loan Board.

Mr. MACGREGOR. That amendment would take over any bonds in the Treasury?

Mr. MEYER. I presume that is the idea.

Mr. WINGO. That is what one group advocated. Another group submitted another proposition. I am not saying which is proper.

Mr. MEYER. What would be the objection? Do you mean to sell them on the market?

Mr. WINGO. Sell them to you and let you dispose of them on the market.

Mr. MEYER. Was it the purpose to do that in order that the bonds might be put on the market?

Mr. WINGO. No; to relieve the Treasury of them. It would clean up as far as possible all bonds, either from railroads, banks, and let whatever are held be held by the War Finance Corporation.

In response to your inquiry, it would be possible for the Secretary of the Treasury to sell you farm loan bonds instead of giving you cash, and then if you needed additional cash you could go on the market with them. If he sold you $100,000,000 of farm loan bonds, and he turned right around and gave you that $100,000,000, it would be necessary to pay it in bonds and not in cash.

Mr. MEYER. Yes.

Mr. WINGO. And if you had to have additional cash and you could not sell those bonds, let you issue your debentures or notes and borrow the money on the market, and thereby clean up for the Treasury.

Mr. MEYER. I think, in a general way, the interest rate of farm loan bonds will enable them to sell at about 5½ per cent.

Mr. WINGO. No; not the land bank. If you will look at the market, you can sell the 5 per cent farm land bank bonds at 101. Perhaps there was 100 offered and 101 demanded. So the 5 per cent bond is about at par and the market is a little better. They may be able to sell bank bonds at 5 per cent. I think the joint banks can not do that, but must pay 5½ per cent.

Mr. MEYER. The Treasury has some of these 5 per cent farm loan bonds, and, if there is a good market for them, I have no doubt that the Farm Loan Board could sell them on the market and pay the Treasury.

Mr. WINGO. I think the objection would be they do not want you to sell them on the present market. The market is limited now, and they would want to wait until there is a better market, but the Treasury might want you to carry them and keep your notes and borrow money.

Mr. MEYER. I see.

The CHAIRMAN. Can you tell us whether these debentures that you issue are tax free?

Mr. MEYER. They are the same as the second Liberty loan bonds and Treasury certificates—exempt from normal taxes.

Mr. DUNBAR. Subject to surtax, Mr. Meyer?

Mr. MEYER. Yes; as stated in the original act, they are subject to inheritance taxes and all surtaxes.

The CHAIRMAN. When you were discussing the elimination of these objections of the War Finance Corporation with a better reserve system, you expressed the view that only a limited amount, in your judgment, would ever go into the Federal reserve system.

Mr. MEYER. Yes; the Treasury certificates are only rediscounted to the extent of 10 per cent. They can be used in cases of emergency. That does not mean that the holders do use them or expect to use them.

The CHAIRMAN. It is not the purpose of the War Finance Corporation to sell these to member banks for the purpose of rediscounting them?

Mr. MEYER. No; we would expect them to sell largely in the way of investments.

The CHAIRMAN. The reason I ask that is because under this legislation it would be permissible to issue securities based on collateral, which is not now subject to rediscount by the Federal reserve system, but would be when it goes through the War Finance Corporation.

Mr. MEYER. We are not discounting our paper with the Federal reserve banks. It has to come from a bank.

The CHAIRMAN. The member bank would have these for rediscount purposes?

Mr. MEYER. The banks would not have to take them. The Federal Reserve Board has considered the matter of the elimination of the differential and thought it would be a good thing.

The CHAIRMAN. Gov. Harding was before the committee this morning and he said he could see no objection to it.

Mr. MEYER. Naturally, the board was consulted. I would not make such a recommendation without consulting the board.

Mr. KING. In taking the debentures of some of these corporations that have been organized, would you require any guaranty on the part of the company issuing them?

Mr. MEYER. Yes.

Mr. KING. You know they are not necessarily bound under the law?

Mr. MEYER. I know, but we would bind them. We could not put ourselves in the position of buying their debentures without regard to what they did with the money. I can not speak for the board of directors of the War Finance Corporation, but, so far

as I am concerned, I would recommend that, in purchasing their debentures, they should be secured by some guaranty or collateral.

Mr. KING. Would any of that money be used for the purchase of stocks offered by the corporation itself?

Mr. MEYER. There is no authority to buy shares.

Mr. KING. I understood you to criticize this limitation: "No such promissory notes, debentures, or other obligations shall be purchased which have a maturity at the time of such purchase of more than five years." Do you think that time ought to be extended?

Mr. MEYER. No.

Mr. KING. Then, I misunderstood you.

Mr. MEYER. We approved of that. It was another limitation that I referred to.

Mr. KING. Just refer to it briefly for the record.

Mr. MEYER. I would not say that I criticized it. The clause I referred to was this: "*Provided*, That no purchase of debentures, promissory notes, or of other obligations of the said banking corporations shall be made nor any loan or advance be made to said banking corporations, except for the purpose of assisting the said banking corporations in financing the exportation of agricultural and manufactured products from the United States to foreign countries."

This proviso restricts the authority given under section 24, so that it practically makes the authority identical with what we already have.

Mr. KING. Now, along with these debentures do you expect to issue loans for as long as 20 years?

Mr. MEYER. We could not buy debentures on such a basis. Any debentures that we may purchase under this bill would have to be for short terms and secured by short-term loans.

The CHAIRMAN. You would probably take them as collateral to the obligation.

Mr. WINGO. If I remember correctly, you said that the only purpose for which that provision is put in this bill is because there is a provision in here that all purchases shall cease six months after the proclamation, except those specifically set out in this amendatory act. You first say there is no restriction, and then say it is in the present law. Which is correct?

Mr. MEYER. We can make loans now for five years.

Mr. WINGO. All this does is to extend your time? Under the present law, as soon as the President's proclamation is issued, you could not do anything else.

Mr. MEYER. Under section 21 we have authority to make loans up to one year after the proclamation of peace.

Mr. WINGO. Under this provision how long?

Mr. MEYER. We were suggesting the fixing of a definite date, July 1, 1922, because there may not be a presidential proclamation.

Mr. WINGO. Here is something you may have overlooked. In section 2 of this bill, covering this proposition, it says:

"That except as otherwise provided by this amendatory act, the corporation shall not exercise any of the powers conferred by this act, except such as are incidental to the liquidation of its assets and the winding up of its affairs, after six months after the termination of the war, the date of such termination to be fixed by proclamation of the President of the United States."

That is one of the provisions of the present amendatory act, and you would not be shut out by the July 1 proposition. I want to get your judgment on that.

Mr. MEYER. July 1, 1922, is the date on which is proposed to terminate the making of advances, but at any time between now and that date we would be authorized, under section 21, to lend for five years. We do not generally make loans for that length of time and do not intend to do so. Under sections 22 and 24 we might lend on agricultural products for a year and give a renewal for another year if needed.

Mr. WINGO. This provides you may do that until July 1, 1922.

Mr. MACGREGOR. I suggest that you amend that section where it says "six months," and make it read "July 1."

Mr. WINGO. That does not cover it. At the bottom of that page of the record you will find this provision, which you say is a restriction:

"Advances of purchases may be made under this section at any time prior to July 1, 1922."

That is covered already in section 24, including this Edge Law proposition?

Mr. MEYER. Yes.

Mr. WINGO. The result of that was because of the provision in section 2 above that, where you desired to substitute this specific date of July 1 for the six months' provision. That is exempted from this, because it says "except as otherwise provided by this amendatory act."

Mr. MEYER. That does not provide otherwise. It is simply amendatory of the section.

Mr. WINGO. I know that. That is the reason they put that in this law. Whichever it is, under this amendatory act, under that provision, you would cease to have authority after July 1, 1922. That would be the effect.

Mr. MEYER. That would be the effect.

Mr. WINGO. To end that business six months after the proclamation, in order to let you go on to July 1, 1922, they put down at the bottom here the authority to do these things until July 1, because if they didn't do that you would not have any limitation.

Mr. MEYER. Do you mean this: "Advances of purchases may be made under this section at any time prior to July 1, 1922"?

Mr. WINGO. Yes.

Mr. MEYER. That is not the point I referred to. I am not suggesting that that be changed. I had reference to this:

"Provided that no purchase of debentures, promissory notes, or other obligations of the said banking corporations shall be made nor any loan or advance be made to said banking corporations except for the purpose of assisting said banking corporations in financing the exportation of agricultural and manufactured products from the United States to foreign countries. No such promissory notes, debentures, or other obligations shall be purchased which have a maturity at the time of such purchase of more than five years."

Mr. WINGO. I agree with you on that.

Mr. MEYER. That is what I referred to.

Mr. WINGO. I think you are right about that.

Mr. MEYER. Yes; the time set forth there is correct.

Mr. WINGO. I agree you should put the specific date in there, but if you do that you would still have to have this July 1, 1922, in it?

Mr. MEYER. Yes.

Mr. WINGO. Because this provision down here comes within the exceptions in the first provision. I think you ought to do that. The point I want to get at is that by putting that provision in it is a repetition of existing law, so as to take you outside the limitations of the first section.

Mr. MEYER. The second section was inserted by the Senate. It was not in the original draft.

Mr. WINGO. It does not change existing law at all, so it does not give you any additional power or take away from you any power that you had prior to this.

Mr. MEYER. No.

Mr. WINGO. I just wanted to be sure whether I am right about that.

Mr. MEYER. I think you are correct in that.

Mr. FENN. In section 2, after the words "to be," should be inserted the words "July 1, 1922".

Mr. WINGO. I think that would be proper and let it remain also at the bottom.

I understand you also make no change, so far as the rediscount purposes of the reserve bank is concerned, except to remove the 1 per cent differential.

Mr. MEYER. That is correct.

Mr. WINGO. Now, under section A that you were discussing a while ago, I asked you why it was necessary to have the 1½ per cent differential. That is a provision which authorizes direct loans to an agency and by an indorsement of the bank.

Mr. MYER. It is a maximum of 1½. It does not fix it at 1½. That was the suggestion of the Agricultural Committee of the Senate. We have no objection to it.

The CHAIRMAN. It might be the same rate as the Federal Reserve Board.

Mr. WINGO. I want to get your judgment. What is the necessity for the differential?

Mr. MEYER. Not exceeding 1½ per cent above the 90-day discount rate?

Mr. WINGO. Yes.

Mr. MEYER. We might be raising money and paying more for it than the 90-day discount rate.

Mr. WINGO. Would not that be true with reference to operations under B and C and under section 24? You do not provide for a differential in them.

Mr. MEYER. No.

Mr. WINGO. In one case, as I recall, it is fixed through the Federal reserve bank.

Mr. MEYER. No; that relates to rediscounts.

Mr. WINGO. But there is a provision in there.

Mr. MEYER. No, Mr. Wingo, there is no provision other than that. If you want to eliminate all restrictions from the original act of the War Finance Corporation, you would have to amend it in that respect.

Mr. WINGO. Do you intend to apply that to paper under sections B and C?